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 2014

CONTENTS

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
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Quanzhou
Fujian Province
China

COMPLIANCE ADVISER

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Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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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 sales of home decor products, electric fireplaces and air purifiers. 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 the U.K. on original design manufacturing ("ODM")/original equipment manufacturing ("OEM") basis. 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. 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 air purifier series products provide diversified offering in styles, principally in standalone products, products attached to electric fireplaces and vehicle-mounted products.

The Group's design and technical team consists of more than 120 staff. In 2014, the Group has offered more than 4,800 pieces of home decor items, 250 models of electric fireplaces and 5 models of air purifiers. Currently, the Group owns 43 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, and Bengbu in Anhui Province with a total gross floor area of approximately 141,023.8 square metres. As of 31 December 2014, the Group's total effective designed annual production capacity was 427,500 units of 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 of the Company (the "Board"), I am pleased to present the annual report of the Group for the year ended 31 December 2014.

In 2014, China achieved a GDP growth of 7.4%, the country's lowest growth rate for the past 24 years. The operating environment for enterprises was indeed challenging. As a leading manufacturer of branded electric fireplaces and home decor products in the PRC, China Creative Home strove to better equip itself during the year, and achieved outstanding operating results with fruitful development in different business segments, despite the challenges posed by the macro-economic environment.

For the year ended 31 December 2014, the Group's revenue amounted to RMB1,409.0 million (2013: RMB1,195.5 million) and profit attributable to owners of the Company amounted to RMB354.9 million (2013: RMB303.2 million). Both revenue and profit attributable to owners of the Company achieved double-digit growth of 17.9% and 17.1% respectively as compared with the previous year.

The sound performance of the Group was primarily attributable to the increased sales of our electric fireplaces during the year, which was due to a number of factors. Firstly, the Group has observed that Chinese people have become more demanding in the quality of life as their economic conditions improve. They are increasingly more sophisticated in terms of choosing their home decoration, home furniture and the overall atmosphere of their homes. Different series of our electric fireplaces, which are both highly decorative and functional, have become one of the best products offering a trendy touch and catering to people preferring good taste in life.

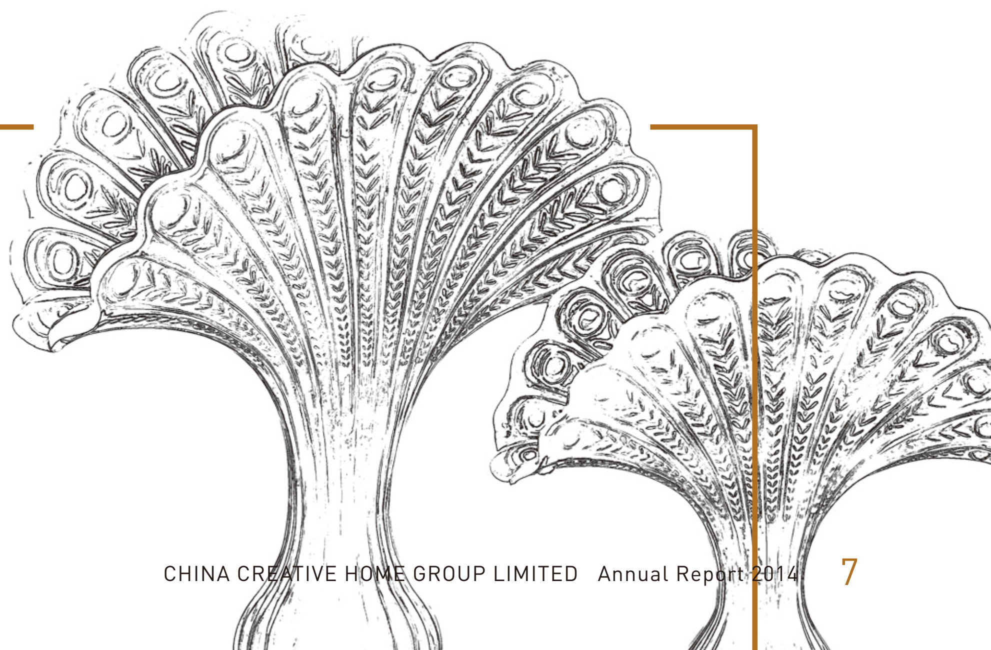
The Group is very demanding in its requirements for product design. A product has to be trendy and have diversified appeal. A balance should also be struck between its functions, the technology involved and sophistication. Incorporating these characteristics depends on the efforts of the Group's design and technical team, comprising more than 120 staff. To further consolidate its leading position in product design and development, the Group has entered into a strategic agreement with Arredoclassic, a high-end home product company in Italy, in May 2014 and appointed Ms. Simona Melli, an internationally renowned designer, as the Group's chief designer, to bring a greater variety of styles to the design of the Group's products.

Strong capability in product development is the key to the Group's growth and maintaining our competitiveness. The Group's research and development team has joined hands with University of Shanghai for Science and Technology (上海理工大學) during the year to develop electric fireplaces with air purifying function and other products under our air purifier series. The launch of a new series of products signifies the Group's progress up to a higher level in its research and development and product design. At the same time, it has also expanded the Group's source of revenue and further enlarged its market share. In this series of products, China Creative Home was the first in the PRC to form its core technology which was adapted from internationally-advanced technologies to address domestic demand for more localized characteristics, thereby securing the technological advances of its air purifiers. Among the new products launched by the Group, the air purifier series products provide diversified offerings in styles, principally in standalone products, products attached to electric fireplaces and vehicle-mounted products.

In line with the launch of its new products, the Group also actively expanded its sales channels. The first creative home furnishing concept shop under the "Allen (亚伦)" brand had its grand opening in Fujian during the second half of 2014, and an operation centre was opened in Shenzhen in the second half of 2014, to strengthen our communications with our customers, develop e-commerce and optimise in the scope of recruitment of research & development and sales talents. In addition, whilst the Group consolidates its cooperation with existing distributors, it has also actively expanded its new distributors network, including initiating online sales. The Group is thus committed to investing more in e-commerce and is currently in negotiations with leading e-commerce enterprises, aiming to develop the Group's online business through strategic collaboration.

With the extension of our product lines and the variety of our product range, the Group has also embarked on expanding into new markets. Its greatly enhanced efforts in product promotion across northern China, southern China, southwestern China, northwestern China and northeastern China have successfully attracted new distributors. Meanwhile, the Group's efforts in exploring overseas markets have proven effective, including the positive contribution from the European and North American markets to the Group's total revenue in 2014.

In terms of boosting its capacity, the Group started the construction of phase one of its production facilities in Anhui during December 2013, which was completed in mid-2014 contributing an additional capacity of 100,000 units of electric fireplaces per annum. Expansion of the production facilities in Luojiang, Fujian was completed in late 2014 with an additional capacity of approximately 50,000 units of electric fireplaces per annum so that the total capacity of electric fireplaces at Luojiang production facilities has reached to 327,500 units per annum.



PROSPECTS FOR 2015

Looking ahead to 2015, the Group expects China will continue to face the downward pressure in its economic performance. However, according to a report compiled by Frost and Sullivan, the compound annual growth rate of electric fireplace sales is expected to be approximately 13.0% between 2013 and 2016. In addition, the current low penetration of home electric fireplaces in China underscores the vast market potential. As a leading manufacturer of branded electric fireplaces and home decor products in China, China Creative Home is consistently implementing its carefully formulated development strategies aimed at paving the way to capture a larger market share. The Group aims at establishing more creative home furnishing concept shops in major cities in the PRC by the end of 2016, including Beijing, Shanghai, Shenzhen, Guangzhou, Chengdu and Bengbu.

Moreover, the Group is maintaining its focus on strengthening its design capability, promoting its brand to more new customers and raising its production capacity, with a view to bringing its strong competitive advantages into full play. Consumers in the PRC are in increasing demand for products which can improve indoor air quality, given the worsening air pollution in the PRC's cities. The Group is striving to expand its low-carbon green product lines, with a view to building a full range of low-carbon green products. The development of our water purifier products is in progress and the launch time will be disclosed in due course.

The Group believes that capacity expansion as scheduled in line with market demand will help to bring economies of scale into full play, and in turn enhance our profitability. Construction of phase two of our production facilities in Anhui, with an annual capacity of approximately 100,000 units of electric fireplaces, has commenced in the fourth quarter of 2014, and is expected to be completed in the first half of 2015. The construction of phase three facilities, with an expected annual capacity of approximately 100,000 units of electric fireplaces, is expected to commence in the second half of 2015 and complete by the first half of 2016. Upon completion of all three phases, the Group's annual production volume of electric fireplaces will increase from 427,500 units at the end of 2014 to 627,500 units, representing an increase of 200,000 units or approximately 47%.

APPRECIATION

On behalf of the Board, I would like to offer my appreciation to the customers, bankers, investors and business partners for their unwavering support and trust to the Group. We also take this opportunity to express our gratitude to the management and all staff members for their contributions to the Group over the past year. Going forward, the Group aims to firmly grasp development opportunities for its businesses, solidify the competitiveness of its existing businesses and expand its market share, with a view to generating better returns for our shareholders.

CHEN Fanglin
Chairman and Executive Director

Hong Kong, 25 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2014, China achieved a GDP growth of 7.4% to approximately RMB63.6 trillion, ranking the second in the world. Despite the record-low growth rate for the past 24 years, China is still the country with the fastest pace of economic growth in the world. Urbanisation rate in China is expected to reach 56.4% in 2016, with the influx of migrants from rural to urban areas contributing to an increasing trend towards urbanisation. Driven by the ongoing urbanisation and increasingly stronger purchasing power of Chinese residents, retail sales of consumer goods in China are expected to exceed RMB36 trillion by 2016. The economic growth and urbanisation of China represented the primary drivers for the business development of the Group.

With the increasing purchasing power and level of disposable income, consumers are able to purchase creative furnishing items, including electric fireplaces, to reflect their individual styles and designs of their surroundings. It is forecasted by Frost & Sullivan that the total sales of branded electric fireplaces will reach approximately RMB7.0 billion in 2016 in the PRC, with a compound annual growth rate of approximately 18.6% from 2013 to 2016. Therefore, it indicates that there is a large potential for the Group's "Allen (亚伦)" brand to grow in the PRC.

BUSINESS REVIEW

China Creative Home is principally engaged in the design, development, manufacture and sales of home decor products, electric fireplaces and air purifiers. We sell our products domestically in the PRC under our "Allen (亚伦)" brand and export our products on ODM/OEM basis to countries including the US, Germany, Canada, France and the U.K..

Electric fireplaces and air purifiers, and home decor products are the two major product lines of the Group. For the year ended 31 December 2014, the revenue of these two major product lines accounted for 63.1% and 36.9% of the total revenue respectively (2013: 57.5% and 42.5%). The wood series of electric fireplaces recorded a significant increase in sales revenue, accounting for 63.4% of the revenue generated from electric fireplaces and air purifiers segment (2013: 49.8%). For the home decor products segment, the polyresin series of home decor products had substantial contribution to the revenue, accounting for 48.1% of the revenue generated from home decor products segment (2013: 57.7%). In the fourth quarter of 2014, electric fireplaces with air purifying function and air purifier products were launched. Albeit the short time elapsed, the series of air purifier products has already contributed RMB45.9 million revenue to the Group.

In terms of geographic location, China is the major market of the Group. For the year ended 31 December 2014, the sales revenue from China accounted for 87.4% of the total revenue (2013: 90.9%). The Group's extensive distribution network in China covered major provinces and cities in the nation including Eastern China which accounted for more than 50%. This indicated that the Group's trendy products in European and American style made under innovative and environment-friendly concepts were popular in the coastal regions of China where the consumption power was strong and products in European and American styles were increasingly accepted among consumers.

BUSINESS REVIEW (Continued)

Construction of phase one of the Group's Anhui production facilities and expansion of the Group's Luojiang production facilities were completed in the middle and at the late of year 2014, respectively, contributing to an additional capacity of 100,000 and 50,000 units of electric fireplaces per annum respectively. Benefiting from capacity expansion and uplifted promotions in overseas markets including European and North American markets, sales growth has become more remarkable for the overseas market and resulted in an increase of 3.5% points to 12.6% from last year.

The Group believes that product design and brand equity are vital for the competitiveness of the Group's products. We have a design and technical team consisting of more than 120 staff. For the year ended 31 December 2014, the Group has offered more than 250 models of electric fireplaces, 5 models of air purifier products and 4,800 models of home decor products. Currently, the Group owns 43 patents in the PRC.

PROSPECTS

With the increasing market demand for electric fireplaces and high-quality home decor products, the Group enjoys its advantageous position as a market leader. To maintain its position as an industry leader, the Group will continue to adhere to the development strategies formulated since its listing and further capture market share. This will include capacity expansion, improvement in production efficiency, increase in market share in the PRC, Europe and the US markets, enhancement of brand loyalty and further improvement of product design and development ability.

Regarding capacity expansion and improvement in production efficiency, construction of the phase two production facilities in Anhui, with an annual capacity of approximately 100,000 units of electric fireplaces, commenced in the fourth quarter of 2014 and is expected to complete in the first half of 2015. Construction of phase three production facilities, with an expected annual capacity of approximately 100,000 units of electric fireplaces, is expected to commence in the second half of 2015 and complete by the first half of 2016. Upon completion of all three phases of the new production facilities in Anhui, the Group's annual production volume of electric fireplaces is expected to increase from 427,500 units as of the end of 2014 to 627,500 units, representing an increase of 200,000 units or approximately 47%. The Group believes that construction of the new production facilities would rapidly expand the scale of production and operation, help to bring economy of scale into full play and in turn enhance our profitability.

In addition to the ongoing efforts to strengthen the relationship of our existing customers in coastal areas and southwestern China, the Group will identify new customers in southwestern and northwestern China. Furthermore, the Group plans to establish more creative home furnishing concept shops in major cities in the PRC by the end of 2016, including Beijing, Shanghai, Shenzhen, Guangzhou, Chengdu and Bengbu. The Group shall decide to establish more similar creative home furnishing concept shops in other cities based on the results of operations of the shops and the level of consumer acceptance.

Regarding the overseas market, the Group will enjoy a further increase in the penetration rate in the overseas market, benefiting from the recovery of both the economy and the real estate market of the US.

PROSPECTS (Continued)

To enhance the brand recognition, the Group adopts a two-pronged strategy comprising both China's market and the overseas market. In China, the Group will utilize the advantage of "Allen (亚伦)" brand as a market leader in China and extend this advantage to other regions of China in order to provide a comfortable home environment and pleasant living atmosphere to more customers. Through multiple channels like multimedia advertisements and trade fairs, we will strengthen the brand recognition of "Allen (亚伦)". For the overseas market, the Group will consolidate the existing overseas sales network. On the back of our ODM/OEM products, we will gradually launch our "Allen (亚伦)" brand overseas, especially in the market of Northern America.

The development of the creative home decor market is ever-changing. The ability to grasp the market trend and to design and develop innovative products of supreme quality has always been the key to success for China Creative Home. To consolidate its leading position in the industry, the Group will continue to improve its design and development capability. The Group will, on the one hand, expand its design and research and development team and become better equipped with more advanced facilities to design more attractive and stylish products. On the other hand, we shall further enrich our product mix in order to satisfy the needs of different customers.

With rising environmental awareness, the Group shall spend more resources on developing products that facilitate physical health and enhance environmental quality, and on using more environmental-friendly materials so that our products have better energy efficiency. Consumers in the PRC are in increasing demand for products which can improve indoor air quality, given the worsening air pollution in the PRC's cities. The Group will strive to expand its low-carbon green product lines, with a view to building a full range of low-carbon green products. The development of water purifier products is in progress and the launch time will be disclosed in due course. Riding on its strong design and research and development capability, the Group is confident that it will remain the top choice of creative home decor products for consumers.

ISSUE OF NON-LISTED WARRANTS

On 13 November 2014, the Company entered into a subscription agreement with a subscriber pursuant to which the Company agreed to issue, and the subscriber agreed to subscribe for 180,000,000 non-listed warrants (the "Warrant") at the warrant issue price of HK$0.105 (approximately RMB0.084) (the "Warrant Issue Price") per Warrant.

The Warrants entitle the holders thereof to subscribe for 180,000,000 new shares of the Company (the "Shares") at an initial warrant exercise price of HK$2.20 (approximately RMB1.76) per Warrant Share, subject to adjustments. Such Warrant carries the right to subscribe for one Warrant Share. The Warrants are to be exercised within 12 months from the date of issue of Warrant.

On 8 December 2014 (the "Issue Date"), the Company issued 180,000,000 Warrants at the Warrant Issue Price.

As the exercise price of the Warrants is fixed in HKD and the functional currency of the Company is in RMB, the Warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. The fair value of Warrants is reclassified to equity upon exercise. The Warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in profit or loss.

ISSUE OF NON-LISTED WARRANTS (Continued)

On the Issue Date, these Warrants were valued at HKD0.105 per Warrant (approximately RMB0.084 per Warrant) for a total of HKD18,900,000 (approximately RMB15,120,000).

On 31 December, 2014, the fair value of Warrant issued were valued at HKD0.125 per Warrant (approximately RMB0.1 per Warrant) for a total of HKD22,500,000 (approximately RMB18,000,000) and the Group recognized a loss of RMB2,880,000 during the year.

Details of the abovementioned were disclosed in the Company's announcements dated 13 November 2014 and 8 December 2014.

Up to the date of this announcement, none of the Warrants have been exercised.

FINANCIAL ANALYSIS

Revenue

Our revenue increased by RMB213.5 million from RMB1,195.5 million to RMB1,409.0 million, represented a growth of 17.9% compared with last year. The increase was mainly driven by the increase in sales of electric fireplaces and the new product, air purifiers.

Revenue analysis by product type is as follows:

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Electric fireplaces and air purifiers		
Frame electric fireplaces		
– Wood series	**563,613**	342,171
– Natural stone series	**92,255**	121,154
– Inorganic series	**131,826**	143,070
Non-framed electric fireplaces	**54,943**	80,517
Air purifiers	**45,944**	–
	888,581	686,912
Home decor products		
– Polyresin series	**250,247**	293,503
– Porcelain series *(Note)*	**171,835**	114,356
– Inorganic series	**98,343**	100,751
	520,425	508,610
	1,409,006	1,195,522

Note: Included in sales of porcelain series home decor products are sales of humidifiers of RMB40.4 million (2013: RMB8.9 million).

FINANCIAL ANALYSIS (Continued)

Revenue (Continued)

The increase in sales of wood series electric fireplaces was primarily due to a wider range of products to satisfy our customers' preferences, which led to an increase in the sales volume as a result of the increasing recognition of our "Allen (亚伦)" brand and market demand. The increase in sales of porcelain series home decor products is mainly due to an increase in the sales volume as well as the higher average selling price per unit as larger size series with higher selling prices were offered in year 2014, and an increase in sales of humidifiers as a result of market demand. The new product, air purifiers, was launched in October 2014.

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

Gross Profit and Gross Profit Margin

Our gross profit increased from RMB529.5 million for the year ended 31 December 2013 to RMB569.0 million for the year ended 31 December 2014, represented a growth of 7.5% compared with last year primarily due to the increase in sales.

The gross profit margin decreased from 44.3% for the year ended 31 December 2013 to 40.4% for the year ended 31 December 2014. The decrease was primarily due to the increase in manufacturing labour costs and the purchase prices of raw materials.

Selling and Distribution Costs

Our selling and distribution costs increased by RMB4.2 million, or approximately 7.0%, from RMB59.9 million for the year ended 31 December 2013 to RMB64.1 million for the year ended 31 December 2014 primarily due to (i) the increase in staff costs due to the general increase in staff wages; and (ii) the increase in advertising and promotion expenses due to our increased focus on advertising effort.

Administrative Expenses

Our administrative expenses decreased by RMB4.3 million, or approximately 5.2%, from RMB83.0 million for the year ended 31 December 2013 to RMB78.7 million for the year ended 31 December 2014. The decrease was mainly due to the decrease in the professional fee in respect of the Company's listing preparation which had been reflected in 2013 and nil in 2014, and partly set off by the increase in (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; (iii) the increase in impairment loss on property, plant and equipment due to certain land use rights and properties to be resumed for redevelopment by the local government; and (v) the increase in net foreign exchange loss arising from the listing proceeds received and denominated in HKD.

FINANCIAL ANALYSIS (Continued)

Other Income

Other income increased by RMB7.3 million or approximately 112.3%, from RMB6.5 million for the year ended 31 December 2013 to RMB13.8 million for the year ended 31 December 2014 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 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 since September 2013.

Other Gains – Net

Our other gains consists of fair value gain on investment property of RMB9.5 million and set off by fair value loss on derivative financial liabilities of RMB2.9 million for the year ended 31 December 2014.

Finance Costs

Our finance costs decreased by RMB2.1 million, or approximately 46.7%, from RMB4.5 million for the year ended 31 December 2013 to RMB2.4 million for the year ended 31 December 2014. The decrease was mainly due to the capitalisation of interest on bank borrowings drawn in relation to the construction of production facilities during the year ended 31 December 2014.

Income Tax Expenses

Our income tax expenses increased by RMB3.9 million, or approximately 4.6%, from RMB85.4 million for the year ended 31 December 2013 to RMB89.3 million for the year ended 31 December 2014, primarily as a result of the increase in our profit.

The effective tax rate for the Group slightly decreased by 1.9% from 22.0% in 2013 to 20.1% in 2014, which is mainly attributable to the increase in profit from electric fireplaces and air purifiers segment which was charged at a preferential tax rate of 15%.

Profit for the Year Attributable to Owners of the Company

Profit attributable to owners of the Company increased by RMB51.7 million, or approximately 17.1%, from RMB303.2 million for the year ended 31 December 2013 to RMB354.9 million for the year ended 31 December 2014, primarily as a result of the increase in our revenue. Net profit margin decreased slightly from 25.4% for the year ended 31 December 2013 to 25.2% for the year ended 31 December 2014. Basic earnings per share decreased from RMB21 cents for the year ended 31 December 2013 to RMB20 cents for the year ended 31 December 2014 mainly due to the dilution effect after the global offering in December 2013.

FINANCIAL ANALYSIS (Continued)

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 and HKD. As at 31 December 2014, the Group had net current assets of RMB1,007.4 million (2013: RMB1,176.9 million), of which cash and cash equivalents were RMB607.1 million (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 31 December 2014, the Group's secured bank borrowings amounted to RMB54.0 million (2013: RMB59.0 million) and these bank borrowings were denominated in RMB. As at 31 December 2014, the effective interest rate on the Group's bank borrowings was 6.38% (2013: 6.82%).

	2014	2013
Current ratio[1]	**3.2**	5.0
Gearing ratio (%)[2]	**2.8%**	3.6%

(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) divided by our total equity.

Foreign Exchange Risk

Our functional currency is RMB. Our Group's foreign exchange risk mainly relate to fluctuations in exchange rates of RMB against our bank balances 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 16, 23 and 24 to the financial statements.

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 decreased from RMB1,176.9 million as at 31 December 2013 to RMB1,007.4 million as at 31 December 2014, representing a decrease of RMB169.5 million or approximately 14.4%. The decrease in working capital is a result of the decrease in cash and cash equivalents, and deposits, prepayments and other receivables, and increase in trade and other payables, and partly set off by the increase in trade receivables and bank deposits.

FINANCIAL ANALYSIS (Continued)

Working Capital Management (Continued)

Trade receivables increased from RMB335.9 million as at 31 December 2013 to RMB571.7 million as at 31 December 2014. The increase was mainly due to the increase in sales of our electric fireplaces and air purifiers. The receivables from electric fireplaces and air purifiers customers increased by RMB180.0 million from RMB218.8 million as at 31 December 2013 to RMB398.8 million as at 31 December 2014. The average trade receivables turnover days for the year ended 31 December 2014 increased to 118 days (2013: 95 days), primarily due to longer credit periods offered for individual customers based on their needs. 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 2015, approximately RMB260.3 million of total trade receivables as at 31 December 2014 have been settled.

The turnover days for inventory increased slightly from 18 days for the year ended 31 December 2013 to 19 days for the year ended 31 December 2014 while the turnover days for trade payables increased from 66 days to 87 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 2013 and 2014. 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 were 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). As at 31 December 2014, the unused proceeds were deposited in licensed banks in Hong Kong and the PRC.

	Percentage to Total Amount	**Net Proceeds** HKD'million	**Utilised Amount as at 31 December 2014** HKD'million	**Unutilised Amount as at 31 December 2014** HKD'million
Establishing new production facilities	53.7%	**320.7**	**320.7**	**–**
Establishing seven creative home furnishing concept shops	16.0%	**95.6**	**32.7**	**62.9**
Expanding overseas sales network under our own brand overseas	7.3%	**43.6**	**3.3**	**40.3**
Own-brand promotion	7.0%	**41.8**	**26.5**	**15.3**
Increasing and enhancing our research and development activities	6.0%	**35.8**	**30.8**	**5.0**
General working capital	10.0%	**59.7**	**59.7**	**–**
		597.2	**473.7**	**123.5**

FINANCIAL ANALYSIS (Continued)

Employees and Emoluments

As at 31 December 2014, we employed a total of 1,631 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 2014, the Group's total expenses on the remuneration of employees was RMB177.6 million, representing 12.6% 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 2014, no options have been granted. The Group is committed to nurturing a learning and sharing culture in the organization. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success is dependent on the contribution of all functional divisions comprising skilled and motivated staff.

Capital Expenditure

For the year ended 31 December 2014, the capital expenditure of the Group amounted to RMB509.3 million. It was mainly comprised of additions to property, plant and equipment, and land use rights in the PRC.

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 2014.

Contingent Liabilities

As at 31 December 2014, the Group did not have any material contingent liabilities or guarantees (2013: 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from time to time.

The Company has adopted all the requirements of the code provisions of the Corporate Governance Code. During the year, 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 year 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 year, the independent non-executive Directors represent at least one-third of the Board.

Throughout the year, 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.

BOARD COMPOSITION (Continued)

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. Minutes of board meetings and meetings of board committees are kept by the company secretary of the Company and open for inspection at any reasonable time or reasonable notice by any Director.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, four Board meetings and one general meeting were held and attendance of each Director at the Board meetings and the general meeting is set out as follows:

	Number of Board meetings attended/held	Number of General meetings attended/held
Executive Directors:		
Mr. Chen Fanglin *(Chairman)*	4/4	1/1
Mr. Chen Hongming	4/4	1/1
Mr. Shen Jianzhong	4/4	1/1
Independent non-executive Directors:		
Mr. Dai Jianping	4/4	1/1
Mr. Ng Wing Keung	4/4	1/1
Ms. Sun Kam Ching	4/4	1/1

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 year, the Company had complied with the Code Provisions 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.

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 Hongming and Mr. Ng Wing Keung 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.

DIRECTORS' SECURITIES TRANSACTIONS

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 all 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 year.

BOARD COMMITTEES

The Company has established a remuneration committee (the "Remuneration Committee"), an audit committee (the "Audit Committee") and a nomination committee (the "Nomination Committee"), for overseeing particular aspects of the Company's affairs.

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 major duties of the Remuneration Committee are as follows:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(c) to make recommendations to the Board of the remuneration of non-executive Directors;

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

(d) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(e) to review and approve management's remuneration proposals by reference to the Board's corporate goals and objectives;

(f) to review and approve compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

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.

During the year, the Remuneration Committee convened one meeting:

	Number of meetings attended/held	Attendance rate (%)
Ms. Sun Kam Ching *(Chairman)*	1/1	100%
Mr. Dai Jianping	1/1	100%
Mr. Ng Wing Keung	1/1	100%
Mr. Shen Jianzhong	1/1	100%

During the year, the Remuneration Committee has reviewed the remuneration policy and structure of the executive Directors and senior management of the Company, and offered advice on the same to the Board. The Remuneration Committee also resolved to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

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.

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.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year, 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.

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.

During the year, the Audit Committee convened two meetings:

	Number of meetings attended/held	Attendance rate (%)
Mr. Ng Wing Keung *(Chairman)*	2/2	100%
Mr. Dai Jianping	2/2	100%
Ms. Sun Kam Ching	2/2	100%

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year and up to the date of this report, the Audit Committee together with management has reviewed the Corporate Governance Code, the accounting principles and practices adopted by the Group and discussed the Group's internal control and financial reporting matters, including a review of the annual results for the year ended 31 December 2014 and the interim results, with recommendation to the Board for approval. The Audit Committee has also recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, PricewaterhouseCoopers be re-appointed as the external auditors of the Company.

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.

During the year, the Nomination Committee convened one meeting:

	Number of meetings attended/held	Attendance rate (%)
Mr. Dai Jianping *(Chairman)*	1/1	100%
Mr. Ng Wing Keung	1/1	100%
Ms. Sun Kam Ching	1/1	100%
Mr. Shen Jianzhong	1/1	100%

During the year, the Nomination Committee has reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, conducted performance evaluations to assess whether the independent non-executive Directors have spent enough time in fulfilling their duties, assessed the independence of independent non-executive Directors, and had been keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace. The Nomination Committee has also adopted the following diversity policy on the Board:

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

We embrace and encourage our employees' differences in age, color, disability, ethnicity, family or marital status, gender identity or expression, language, national origin, physical and mental ability, political affiliation, race, religion, sexual orientation, socio-economic status, veteran status, and other characteristics that make our Directors unique.

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 Hong Kong Financial Reporting Standards.

The statement by the auditor about their reporting responsibilities is set out in the independent auditor's report on pages 38 to 39.

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.

The remuneration payable to the independent auditor of the Company in respect of the audit services related to the audit services for the year ended 31 December 2014 and interim review for the six months ended 30 June 2014 amounted to approximately RMB2.8 million. There was no remuneration payable to the independent auditor of the Company in respect of other 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 25 March 2015, 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 37 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, 168–200 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 2014.

PRINCIPAL ACTIVITIES

The principal activity of Company is investment holding and the principal activities of its subsidiaries are set out in Note 32 to the financial statements.

RESULTS AND APPROPRIATIONS

Results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of comprehensive income on page 40.

On 25 March 2015, the Board recommends HK3.9 cents per share as a final dividend for the year ended 31 December 2014.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 96 of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended 31 December 2014 are set out in Note 25 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 44 and Note 27 to the financial statements respectively.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders consist of share premium and retained earnings. As of 31 December 2014, the Company had an aggregate share premium and retained earnings of RMB485.8 million which are available for distribution to the shareholders. For the year ended 31 December 2014, approximately RMB56,160,000 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.

PRINCIPAL PROPERTY

Details of the principal property held for investment purpose are set out below:

Location	Existing use	Lease term
232 Xingxian Road, Licheng District, Quanzhou, Fujian Province, PRC	Rental	Medium term

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment are set out in Note 16 to the financial statements.

BANK BORROWINGS

Details of the Group's bank borrowings are set out in Note 29 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 2014, the Group's five largest customers accounted for approximately 28.5% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 6.5% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 28.8% of the Group's total purchases, while the largest supplier for the year accounted for approximately 6.8% 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 2014, the Group had 1,631 employees in total. The table below shows a breakdown of the Group's employees by their responsibilities:

Department	Number of employees
Management	20
Production	1,289
Quality assurance	22
General and administration	96
Purchase and logistics	12
Design and technical	121
Sales and marketing	71
Total	1,631

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 and senior management 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.

REMUNERATION POLICY AND EMPLOYEES (Continued)

Pursuant to the code provision 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	9
RMB1,500,000 to RMB2,000,000	1
	10

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
Mr. Ng Wing Keung
Ms. Sun Kam Ching

In accordance with the Articles, Mr. Chen Hongming and Mr. Ng Wing Keung 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 35 to 37.

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

As at 31 December 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 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)	1,122,651,180	62.4%

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 entire 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	50,000 shares of US$1.00 each	100%
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 31 December 2014.

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 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)	1,122,651,180	62.4%
Central Profit Group Limited	Interest in controlled corporation/ Long position (Note 1)	1,122,651,180	62.4%
Chen Xiangqun	Interest of spouse/Long position (Note 2)	1,122,651,180	62.4%
Ocean Equity Partners Fund L.P.	Beneficial owner/Long position	95,674,410	5.3%
Clear Zone Limited	Beneficial owner/Long position (Note 3)	90,074,410	5.0%
VMS Investment Group Limited	Interest in controlled corporation/ Long position (Note 3)	90,074,410	5.0%
VMS Holdings Limited	Interest in controlled corporation/ Long position (Note 3)	90,074,410	5.0%
Mak Siu Hang Viola	Interest in controlled corporation/ Long position (Note 3)	90,074,410	5.0%

Notes:

1. The entire 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, VMS Holdings 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 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 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.

SHARE OPTION SCHEME (Continued)

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 2014. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2014.

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 year ended 31 December 2014.

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 35 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.

DEED OF NON-COMPETITION (Continued)

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 year ended 31 December 2014.

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 year ended 31 December 2014.

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 5 May 2015 (the "Annual General Meeting"), the register of members of the Company will be closed from 29 April 2015 to 5 May 2015 (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 28 April 2015.

In order to determine the entitlement to the final dividends for the year ended 31 December 2014, the register of members of the Company will be closed from 12 May 2015 to 15 May 2015 (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 2014, 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 11 May 2015.

On behalf of the Board
Chen Fanglin
Chairman

Hong Kong, 25 March 2015

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Fanglin (陳芳林), aged 51, 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 41, 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 55, 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 58, 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 45, 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 42, 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 43, 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 50, 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 43, 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 43, 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 40 to 95 which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 2014, 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, 25 March 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Revenue	7	**1,409,006**	1,195,522
Cost of sales	8	**(840,026)**	(666,072)
Gross profit		**568,980**	529,450
Selling and distribution costs	8	**(64,111)**	(59,851)
Administrative expenses	8	**(78,651)**	(83,002)
Other income	7	**13,777**	6,482
Other gains – net	11	**6,620**	–
Operating profit		**446,615**	393,079
Finance costs	12	**(2,420)**	(4,481)
Profit before income tax		**444,195**	388,598
Income tax expense	13	**(89,282)**	(85,369)
Profit for the year attributable to owners of the Company		**354,913**	303,229
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss			
Surplus on property revaluation, net of tax	16	**–**	1,642
Other comprehensive income for the year, net of tax		**–**	1,642
Total comprehensive income for the year attributable to owners of the Company		**354,913**	304,871
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted (expressed in RMB per share)	14	**0.20**	0.21
Dividends	15	**56,160**	145,237

The notes on pages 46 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**572,904**	199,858
Investment property	17	**122,100**	112,600
Land use rights	18	**121,746**	112,613
Prepayments	21	**108,815**	24,803
`			
		925,565	449,874
Current assets			
Inventories	19	**50,396**	37,643
Trade receivables	20	**571,688**	335,932
Deposits, prepayments and other receivables	21	**12,800**	100,026
Pledged deposits	23	**5,600**	2,416
Bank deposits	23	**100,000**	–
Cash and cash equivalents	23	**607,066**	995,736
		1,347,550	1,471,753
Assets classified as held for sale	24	**109,552**	–
		1,457,102	1,471,753
Total assets		**2,382,667**	1,921,627
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	**141**	141
Share premium	25	**483,413**	483,413
Reserves		**1,437,919**	1,136,153
Total equity		**1,921,473**	1,619,707

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	30	**11,517**	7,087
Current liabilities			
Trade and other payables	28	**335,451**	206,101
Bank borrowings	29	**54,000**	59,000
Derivative financial liabilities	31	**18,000**	–
Current income tax liabilities		**42,226**	29,732
		449,677	294,833
Total liabilities		**461,194**	301,920
Total equity and liabilities		**2,382,667**	1,921,627
Net current assets		**1,007,425**	1,176,920
Total assets less current liabilities		**1,932,990**	1,626,794

The consolidated financial statements on pages 40 to 95 were approved for issue by the Board of Directors on 25 March 2015 and were signed on its behalf.

Chen Fanglin
Director

Chen Hongming
Director

The notes on pages 46 to 95 are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
ASSETS			
Non-current asset			
Investment in a subsidiary	32	**1,155,484**	703,877
Current assets			
Amounts due from subsidiaries	22	**131,638**	82,421
Prepayments and other receivables	21	**257**	96,653
Cash and cash equivalents	23	**53**	389,167
		131,948	568,241
Total assets		**1,287,432**	1,272,118
EQUITY			
Share capital	25	**141**	141
Share premium	25	**483,413**	483,413
Reserves	27	**782,951**	775,830
Total equity		**1,266,505**	1,259,384
LIABILITIES			
Current liabilities			
Other payables	28	**2,927**	12,734
Derivative financial liabilities	31	**18,000**	–
		20,927	12,734
Total equity and liabilities		**1,287,432**	1,272,118
Net current assets		**111,021**	555,507
Total assets less current liabilities		**1,266,505**	1,259,384

The financial statements on pages 40 to 95 were approved for issue by the Board of Directors on 25 March 2015 and were signed on its behalf.

Chen Fanglin
Director

Chen Hongming
Director

The notes on pages 46 to 95 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

				Reserves				
	Note	Share capital RMB'000 (Note 25)	Share premium RMB'000 (Note 25)	Capital reserve RMB'000 (Note 26(a))	Statutory reserve RMB'000 (Note 26(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 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	26	–	–	–	23,549	(23,549)	–	–
Issuance of shares for initial public offering	25	141	483,413	–	–	–	–	483,554
Dividend	15	–	–	–	–	(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
Comprehensive income								
Profit for the year		–	–	–	–	354,913	–	354,913
Transactions with owners:								
Transfer to statutory reserve	26	–	–	–	27,358	(27,358)	–	–
Dividend	15	–	–	–	–	(53,147)	–	(53,147)
		–	–	–	27,358	(80,505)	–	(53,147)
Balances as at 31 December 2014		141	483,413	406,736	121,981	907,560	1,642	1,921,473

The notes on pages 46 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**424,724**	280,969
Interest paid		**(4,262)**	(4,481)
Income tax paid		**(72,358)**	(78,034)
Net cash generated from operating activities		**348,104**	198,454
Cash flows from investing activities			
Additions to property, plant and equipment		**(490,520)**	(14,222)
Additions to land use rights		**(100,998)**	(38,887)
Interest received		**3,247**	3,001
Increase in bank deposits		**(100,000)**	–
Decrease in amount due to the controlling shareholder		**–**	(10,416)
Net cash used in investing activities		**(688,271)**	(60,524)
Cash flows from financing activities			
Proceeds from issuance of shares for initial public offering		**–**	483,554
Proceeds from derivative financial liabilities	31	**15,120**	–
Proceeds from borrowings		**54,000**	69,000
Repayments of borrowings		**(59,000)**	(70,951)
Capital contribution from a controlling shareholder		**–**	118,559
Dividends paid		**(53,147)**	(85,500)
Net cash (used in)/generated from financing activities		**(43,027)**	514,662
Net (decrease)/increase in cash and cash equivalents		**(383,194)**	652,592
Cash and cash equivalents at 1 January		**995,736**	343,794
Exchange losses on cash and cash equivalents		**(5,476)**	(650)
Cash and cash equivalents at 31 December	23	**607,066**	995,736

The notes on pages 46 to 95 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, electric fireplaces and air purifiers 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 25 March 2015.

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 derivative financial liabilities at fair value through profit or loss, investment property and assets classified as held for sale, which is carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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 2014, the Group has adopted the following new standards, amendments to standards and interpretations which are mandatory for accounting periods beginning on 1 January 2014:

Hong Kong Accounting Standard ("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
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment Entities
HK(IFRIC) – Int 21	Levies

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

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

		Effective for annual periods beginning on or after
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants	1 January 2016
HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions	1 July 2014
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets Between Investor and its Associate or Joint Venture	1 January 2016
HKFRS 11 (Amendment)	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
Annual Improvements Project	Annual Improvements 2010-2012 Cycle	1 July 2014
Annual Improvements Project	Annual Improvements 2011-2013 Cycle	1 July 2014
Annual Improvements Project	Annual Improvements 2012-2014 Cycle	1 January 2016

The Group will adopt the above new standards and amendments to existing standards 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.

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 property 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 property 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Assets classified as held for sale

Assets are classified as held for sale when their carrying amounts are to be recovered principally through sale transactions and sales are considered highly probable. The assets are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries) and investment property, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

2.10 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 20 and 21), pledged deposits, bank deposits and cash and cash equivalents (Note 23) in the consolidated 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.

2.11 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)

2.11 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.

2.12 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.

2.13 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.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks.

2.15 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)

2.16 Trade and other payables

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

2.17 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.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

2.18 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)

2.18 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.

2.19 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.

2.20 Derivative financial liabilities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Changes in the fair value of derivative instruments not qualified for hedge accounting are recognised immediately in the consolidated profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 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.

(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.

2.22 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

(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.

2.23 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.

2.24 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 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.

2.26 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 and other receivables, other payables and derivative financial liabilities denominated in Hong Kong dollar ("HKD") and the United States dollar ("USD").

The bank deposits, trade and other receivables, other payables and derivative financial liabilities 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.

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 2014, 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 RMB1,415,000 (2013: RMB20,553,000) lower/higher, mainly as a result of net foreign exchange losses/gains on translation of HKD and USD denominated bank deposits, trade and other receivables, other payables and derivative financial liabilities.

As at 31 December 2014, if RMB had strengthened/weakened by 5% against HKD and USD, with all other variables held constant, the Company's post-tax profit for the year would have been RMB861,000 (2013: RMB19,751,000) lower/higher, mainly as a result of net foreign exchange losses/gains on translation of HKD and USD denominated bank deposits, prepayments and other receivables, other payables and derivative financial liabilities.

(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.

Pledged deposits, 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 2014, if interest rates on pledged deposits, bank deposits, cash and cash equivalents and borrowings with floating rates had been 100 basis-points higher/lower with all other variables held constant, the Group's post-tax profit for the year would have been approximately RMB5,387,000 (2013: RMB7,566,000) higher/lower.

As at 31 December 2014, if interest rates on pledged deposits, bank deposits, cash and cash equivalents and borrowings with floating rates had been 100 basis-points higher/lower with all other variables held constant, the Company's post-tax profit for the year would have been approximately RMB400 (2013: RMB3,250,000) higher/lower.

(iii) Price risk

The Group is also exposed to equity securities price risk in respect of the Group's derivative financial liabilities. If the input of the Company's share price to the valuation model of the warrants had been higher/lower by 1% while all other variables held constant, the post-tax profit for the year ended 31 December 2014 would decrease/increase by RMB754,000.

(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 and the Company's maximum exposure to credit risk in relation to its financial assets.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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 and in Hong Kong with good credit standing. For credit risk in respect of trade receivables from customers and other receivables, the Group and the Company 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 and the Company 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 and the Company 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 and the Company'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 29) and capital injection from owners of the Company. 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 2014		
Trade and other payables (excluded other tax payables and deposits received in advance)	303,119	303,119
Bank borrowings	56,088	54,000
	359,207	357,119
At 31 December 2013		
Trade and other payables (excluded other tax payables and deposits received in advance)	191,326	191,326
Bank borrowings	61,943	59,000
	253,269	250,326
Company		
At 31 December 2014		
Other payables	2,927	2,927
At 31 December 2013		
Other payables	12,711	12,711

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%.

	2014 **RMB'000**	2013 RMB'000
Group		
Total debt	**54,000**	59,000
Total equity	**1,921,473**	1,619,707
Gearing ratio	**2.8%**	3.6%

4 FAIR VALUE ESTIMATION

The Group's financial instruments carried at fair value as at balance sheet date are measured by the inputs to valuation techniques. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

There has been no transfer of financial assets and liabilities between levels 1, 2 and 3 during the year.

Assets and liabilities held by the Group using the fair value method include investment property, assets classified as held for sale and derivative financial liabilities (Notes 17, 24 and 31).

For other current financial assets of the Group, including trade and other receivables, pledged deposits, bank deposits, cash and cash equivalents, and current financial liabilities of the Group including trade and other payables and bank borrowings 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 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is the higher of an asset's fair value less costs to sell and value in use.

5.4 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 RMB40,463,000 (2013: RMB27,020,000).

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

5.5 Fair value of derivatives and other financial instruments

The fair value of warrants issued requires judgment in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the warrants. Details of the assumptions used in determining the fair value of the warrants are set out in Note 31.

5.6 Fair value of investment property

The Group carries its investment property at fair value with changes in the fair value recognized in the profit or 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 17.

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 Group has introduced the production and sale of electric air purifiers in the current year. As they share similar manufacturing processes with the electric fireplaces, the chief operating decision-maker decided to combine the results from selling of electric fireplaces and air purifiers and review as a single operating segment "electric fireplaces and air purifiers".

The Group's two reportable operating segments are revised as follows:

Electric fireplaces and air purifiers	–	Design, development, manufacture and sales of electric fireplaces and air purifiers
Home decor products	–	Design, development, manufacture and sales of home decor products and humidifiers

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, derivative financial liabilities and accrued listing fees. These activities are excluded from the reportable operating segments.

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

6 SEGMENT REPORTING (Continued)

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

As at 31 December 2014, a majority of assets and liabilities of the Group are located in the PRC, except for certain assets and liabilities with carrying amounts of RMB7,918,000 (2013: RMB486,940,000) and RMB21,820,000 (2013: RMB13,432,000) respectively, which are located in Hong Kong.

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

	Electric fireplaces and air purifiers RMB'000	Home decor products RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2014:				
Segment revenue				
– PRC	781,500	489,258	–	1,270,758
– International	107,081	70,141	–	177,222
	888,581	559,399	–	1,447,980
Less: Inter-segment revenue	–	(38,974)	–	(38,974)
Revenue from external customers	888,581	520,425	–	1,409,006
Segment results	321,240	126,625	(869)	446,996
Unallocated expense				(381)
Finance costs				(2,420)
Profit before income tax				444,195
Income tax expense				(89,282)
Profit for the year				354,913
Other segment items:				
Additions to:				
Property, plant and equipment	438,373	83	1,190	439,646
Land use rights	69,702	–	–	69,702
Depreciation and amortization	9,423	5,254	382	15,059
Interest income	1,291	1,027	929	3,247
Impairment loss on property, plant and equipment	–	2,393	–	2,393
As at 31 December 2014:				
Segment assets	1,628,737	617,713	136,217	2,382,667
Segment liabilities	238,841	92,790	129,563	461,194

6 SEGMENT REPORTING (Continued)

	Electric fireplaces and air purifiers 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:				
Additions to:				
Property, plant and equipment	1,295	48	4,158	5,501
Land use rights	–	–	20,343	20,343
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

There is no individual external customer contributed more than 10% revenue of the Group's revenue for the year ended 31 December 2014 (2013: nil).

7 REVENUE AND OTHER INCOME

	2014 RMB'000	2013 RMB'000
Sales of products		
– Electric fireplaces	**842,637**	686,912
– Air purifiers	**45,944**	–
– Home decor products (excluding humidifiers)	**480,065**	499,690
– Humidifiers	**40,360**	8,920
	1,409,006	1,195,522
Other income		
– Interest income	**3,247**	3,001
– Rental income	**10,359**	3,318
– Others	**171**	163
	13,777	6,482

8 EXPENSES BY NATURE

	2014 RMB'000	2013 RMB'000
Raw materials used (note(i))	**598,335**	481,561
Packaging and other consumables used	**62,535**	50,340
Changes in inventories of finished goods and work in progress	**(9,116)**	(8,504)
Depreciation of property, plant and equipment (Note 16)	**11,983**	11,917
Impairment loss on property, plant and equipment (Note 16)	**2,393**	–
Amortization of land use rights (Note 18)	**3,076**	2,604
Employee benefit expenses (Note 9)/(note(i))	**177,564**	129,752
Auditor's remuneration	**2,984**	2,765
Professional service fees in respect of listing preparation	**–**	21,298
Legal and professional fees	**2,633**	422
Net foreign exchange loss	**4,636**	2,748
Bad debts written-off (Note 20)	**1,413**	1,930
Delivery expenses	**28,513**	29,089
Electricity and utilities	**14,791**	12,463
Operating lease rentals	**1,485**	72
Travelling expenses	**1,297**	943
Advertising and promotion expenses	**21,238**	18,627
Loss on disposal of property, plant and equipment (Note 16)	**165**	66
Product consultation expenses (note(i))	**11,882**	10,756
Direct operating expenses in respect of investment property that generates rental income	**319**	427
Other expenses	**44,662**	39,649
Total cost of sales, selling and distribution costs and administrative expenses	**982,788**	808,925

8 EXPENSES BY NATURE (Continued)

Note:

(i) Research and development expenses comprise of:

	2014 RMB'000	2013 RMB'000
Employee benefit expenses	**5,689**	5,164
Cost of raw materials used	**7,074**	6,136
Product consultation expense (note)	**11,882**	10,756
	24,645	22,056

Note:

It mainly represents consultation services provided by University of Shanghai for Science and Technology and Fuzhou University for product design and development.

9 EMPLOYEE BENEFIT EXPENSES

The analysis of employee benefit expenses is as follows:

	2014 RMB'000	2013 RMB'000
Wages and salaries (including discretionary bonuses) and other benefits	**133,532**	106,588
Social security and pension costs	**44,032**	23,164
	177,564	129,752

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

	2014 RMB'000	2013 RMB'000
Cost of sales	**154,844**	112,340
Administrative expenses	**18,301**	13,822
Selling and distribution costs	**4,419**	3,590
	177,564	129,752

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of directors for the year ended 31 December 2014 is set out below:

	Year ended 31 December 2014				
Name of Director	**Fees RMB'000**	**Salary RMB'000**	**Discretionary bonuses RMB'000**	**Employer's contribution to pension scheme RMB'000**	**Total RMB'000**
Executive directors					
Mr. Chen Fanglin	**–**	**1,200**	**–**	**366**	**1,566**
Mr. Chen Hongming	**–**	**606**	**100**	**202**	**908**
Mr. Shen Jianzhong	**–**	**607**	**100**	**202**	**909**
Non-executive directors					
Mr. Dai Jianping (note (i))	**95**	**–**	**–**	**–**	**95**
Mr. Ng Wing Keung (note (i))	**95**	**–**	**–**	**–**	**95**
Ms. Sun Kam Ching (note (i))	**95**	**–**	**–**	**–**	**95**
	285	**2,413**	**200**	**770**	**3,668**

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

	Year ended 31 December 2013				
Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
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

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 3 (2013: 2) directors, whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining individuals during the year was as follows:

	2014 RMB'000	2013 RMB'000
Wages and salaries (including discretionary bonuses) and other benefits	**805**	798
Social security and pension costs	**77**	89
	882	887

The emoluments of these remaining individuals fell within the following band:

	2014 Number	2013 Number
Emolument band (in HKD)		
Nil – HKD1,000,000	**2**	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; and none of the above individuals has waived or has agreed to waive any emoluments.

11 OTHER GAINS – NET

	2014 RMB'000	2013 RMB'000
Fair value gain on investment property	**9,500**	–
Fair value loss on derivative financial liabilities	**(2,880)**	–
	6,620	–

12 FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest expense on bank borrowings	**4,262**	4,481
Less: interest capitalized (note)	**(1,842)**	–
	2,420	4,481

Note:

For the year ended 31 December 2014, the capitalization rate of borrowings was 6.38%.

13 INCOME TAX EXPENSE

	2014 RMB'000	2013 RMB'000
Current income tax	**80,385**	79,984
Withholding tax	**4,500**	4,499
Overprovision in prior year	**(33)**	(247)
Deferred income tax (Note 30)	**4,430**	1,133
Total taxation charge	**89,282**	85,369

(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 (2013: nil).

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

Under the Enterprise Income Tax Law of the PRC (the "EIT Law"), the applicable income tax rate for the Group's entities in the PRC, except for Allen Electronics Co., Ltd. Fujian, is 25%.

Pursuant to the EIT Law, with respect to a new and high technology enterprise, the tax levied on its income will be charged 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.

(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 2013 and 2014.

13 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:

	2014	2013
	RMB'000	RMB'000
Profit before income tax	**444,195**	388,598
Tax calculated at domestic tax rates applicable to profits in the respective countries	**112,655**	103,313
Effects of the preferential tax rates	**(31,876)**	(27,830)
Expenses not deductible for taxation purposes	**2,618**	3,119
Tax losses not recognized	**811**	409
Overprovision in prior year	**(33)**	(247)
Withholding tax	**5,107**	6,605
Tax charge	**89,282**	85,369

14 EARNINGS PER SHARE

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

	2014	2013
	RMB'000	RMB'000
Profit attributable to owners of the Company	**354,913**	303,229
Weighted average number of ordinary shares in issue (in thousands) (note (a))	**1,800,000**	1,450,879
Basic earnings per share (expressed in RMB per share)	**0.20**	0.21

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) Diluted earnings per share for the year ended 31 December 2014 equals to the basic earnings per share as the exercise of the warrants as disclosed in Note 31 would be anti-dilutive.

15 DIVIDENDS

Dividends declared and proposed during the year:

	2014 RMB'000	2013 RMB'000
Dividends declared	–	91,754
Final dividend, proposed after the end of the reporting period, Hong Kong 3.9 cents (2013: 3.8 cents) per ordinary share	56,160	53,483
	56,160	145,237

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 approximately RMB53,483,000). Such dividend was approved by the shareholders at the annual general meeting of the Company on 21 May 2014 and paid in July 2014.

On 25 March 2015, the Board of Directors proposed a final dividend of Hong Kong 3.9 cents per ordinary share, totaling HKD70,200,000 (equivalent to approximately RMB56,160,000). Such dividend is to be approved by the shareholders at the annual general meeting of the Company on 5 May 2015. These consolidated financial statements do not reflect this as a dividend payable.

16 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 2013						
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 17)	(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
Year ended 31 December 2014						
Opening net book amount	**189,006**	**9,323**	**1,113**	**416**	**–**	**199,858**
Additions	**–**	**9,555**	**908**	**440**	**428,743**	**439,646**
Transfer	**338,519**	**–**	**–**	**–**	**(338,519)**	**–**
Disposals	**–**	**(143)**	**(22)**	**–**	**–**	**(165)**
Depreciation (note (a))	**(9,790)**	**(1,627)**	**(336)**	**(230)**	**–**	**(11,983)**
Impairment loss (Note 24)	**(2,393)**	**–**	**–**	**–**	**–**	**(2,393)**
Transfer to assets classified as held for sale (Note 24)	**(52,059)**	**–**	**–**	**–**	**–**	**(52,059)**
Closing net book amount	**463,283**	**17,108**	**1,663**	**626**	**90,224**	**572,904**
As at 31 December 2014						
Cost	**483,531**	**28,682**	**2,833**	**1,785**	**90,224**	**607,055**
Accumulated depreciation	**(20,248)**	**(11,574)**	**(1,170)**	**(1,159)**	**–**	**(34,151)**
Net book amount	**463,283**	**17,108**	**1,663**	**626**	**90,224**	**572,904**

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

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

	2014 **RMB'000**	2013 RMB'000
Cost of sales	**6,226**	6,357
Administrative expenses	**5,731**	5,495
Selling and distribution costs	**26**	65
	11,983	11,917

(b) As at 31 December 2014, bank borrowings and bills payable are secured by certain property, plant and equipment with an aggregate net book value of approximately RMB86,649,000 (2013: RMB121,254,000) (Notes 28 and 29).

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

	2014 **RMB'000**	2013 RMB'000
In PRC, held on:		
Leases of between 10 to 50 years	**461,745**	187,400
Leases of over 50 years	**1,538**	1,606
Closing net book amount	**463,283**	189,006

(d) During the year ended 31 December 2013, management had revisited the usage of a block of commercial building held by the Group and had 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 and a deferred tax charge of RMB548,000 were recognized in equity on the date of transfer.

17 INVESTMENT PROPERTY

Movements in the carrying amounts of investment property are summarized as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**112,600**	–
Transfer from property, plant and equipment (Note 16)	**–**	90,148
Transfer from land use rights (Note 18)	**–**	22,452
Fair value gain	**9,500**	–
At 31 December	**122,100**	112,600

The Group's interest in the investment property at its carrying amount is analyzed as follows:

	2014	2013
	RMB'000	RMB'000
In PRC, held on:		
Medium-term lease of between 10 to 50 years	**122,100**	112,600

As at 31 December 2014, the investment property was free of charge. As at 31 December 2013, bank borrowings and bills payable were secured by the investment property with an aggregate net book value of approximately RMB112,600,000 (Note 29).

Investment property was valued at 31 December 2014 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 2014 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% (2013: 10%), expected zero vacancy rate (2013: zero) and average monthly rental of RMB26 (2013: RMB26) per square meter during reversionary period. These assumptions are estimated by the valuer based on the risk profile of the property being valued.

18 LAND USE RIGHTS

	Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**112,613**	117,326
Additions	**69,702**	20,343
Amortization	**(3,076)**	(2,604)
Transfer to investment property (Note 17)	**–**	(22,452)
Transfer to assets classified as held for sales (Note 24)	**(57,493)**	–
At 31 December	**121,746**	112,613

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 2014, land use rights were free of charge. As at 31 December 2013, bank borrowings and bills payable were secured by land use rights with an aggregate net book value of RMB58,604,000 (Notes 28 and 29).

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

	2014	2013
	RMB'000	RMB'000
In PRC, held on:		
Leases of between 10 to 50 years	**102,795**	93,333
Leases of over 50 years	**18,951**	19,280
Closing net book amount	**121,746**	112,613

19 INVENTORIES

	Group	
	2014	2013
	RMB'000	RMB'000
Raw materials	**11,348**	7,711
Work in progress	**14,898**	12,266
Finished goods	**24,150**	17,666
	50,396	37,643

For the year ended 31 December 2014, the cost of inventories recognized as expense and included in cost of sales amounted to approximately, RMB822,689,000 (2013: RMB650,338,000).

20 TRADE RECEIVABLES

	Group	
	2014	2013
	RMB'000	RMB'000
Trade receivables	**571,688**	335,932

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:

	2014	2013
	RMB'000	RMB'000
0 to 30 days	**303,768**	172,126
31 to 60 days	**175,773**	148,203
61 to 90 days	**28,161**	9,439
Over 90 days	**63,986**	6,164
	571,688	335,932

(b) As at 31 December 2014, the Group's trade receivables of RMB485,390,000 (2013: RMB326,937,000) are neither past due nor impaired.

As at 31 December 2014, trade receivables of RMB86,298,000 (2013: RMB8,995,000) 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:

	2014	2013
	RMB'000	RMB'000
Past due by		
0 to 30 days	**55,528**	8,995
31 to 60 days	**30,770**	–
	86,298	8,995

(c) As at 31 December 2014, no trade receivables were impaired and provided for (2013: nil). During the year ended 31 December 2014, trade receivables of RMB1,413,000 (2013: RMB1,930,000) 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 denominated in the following currencies:

	2014	2013
	RMB'000	RMB'000
RMB	**517,698**	289,199
USD	**53,990**	46,733
	571,688	335,932

21 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group	
	2014	2013
	RMB'000	RMB'000
Current		
Deposits and prepayments (note (a))	**5,791**	4,032
Value-added tax recoverable	**–**	72
Listing proceeds held by the sponsor	**–**	95,742
Accrued rental income	**4,485**	–
Rental receivable	**2,149**	121
Others	**375**	59
	12,800	100,026
Non-current		
Prepayments for land use rights	**49,840**	18,544
Prepayments for construction costs	**25,385**	6,259
Prepayments for purchase of property, plant and equipment	**33,590**	–
	108,815	24,803
Total	**121,615**	124,829

	Company	
	2014	2013
	RMB'000	RMB'000
Current		
Prepayments	**257**	911
Listing proceeds held by the sponsor	**–**	95,742
	257	96,653

Notes:

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

21 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

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

	Group	
	2014	2013
	RMB'000	RMB'000
RMB	**121,228**	28,166
HKD	**387**	96,663
	121,615	124,829

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

22 AMOUNTS DUE FROM SUBSIDIARIES

	Company	
	2014	2013
	RMB'000	RMB'000
Amounts due from subsidiaries (note)	**131,638**	82,421

Note:

The amounts due from 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.

23 PLEDGED DEPOSITS, BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group	
	2014	2013
	RMB'000	RMB'000
Pledged deposits (note (a))	**5,600**	2,416
Bank deposits with original maturities of over three months	**100,000**	–
Cash and cash equivalents	**607,066**	995,736
	712,666	998,152

	Company	
	2014	2013
	RMB'000	RMB'000
Cash and cash equivalents	**53**	389,167

23 PLEDGED DEPOSITS, BANK DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

Notes:

(a) The pledged deposits are held in designated bank accounts mainly for the issuance of bills payable to suppliers (Note 28).

(b) The carrying amounts of pledged deposits, bank deposits with original maturities of over three months and cash and cash equivalents of the Group are denominated in the following currencies:

	Group	
	2014	2013
	RMB'000	RMB'000
RMB	**709,397**	607,790
HKD	**3,266**	390,195
USD	**3**	167
	712,666	998,152

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

(c) The interest rate of the bank deposits with original maturities of over three months ranged from 3.0% to 3.3% per annum.

(d) 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.

24 ASSETS CLASSIFIED AS HELD FOR SALE

On 30 September 2014, Quanzhou Allen Light Industry Co., Ltd., a wholly owned subsidiary of the Group, was notified by the local government of Quanzhou that certain land use rights and properties will be resumed for redevelopment.

The resumption of these properties and land use rights with carrying amount of RMB111,945,000 will be concluded at a cash consideration of RMB109,552,000 according to the correspondences from the local government of Quanzhou and the directors consider the transaction is expected to be completed within one year. As a result, these properties and land use rights are classified as assets held for sale as at 31 December 2014 and have been written down to RMB109,552,000. Accordingly, impairment loss of RMB2,393,000 has been recognized as administrative expenses in profit or loss during the year (Note 16).

	Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**–**	–
Transfer from property, plant and equipment (Note 16)	**52,059**	–
Transfer from land use rights (Note 18)	**57,493**	–
At 31 December	**109,552**	–

Certain assets classified as held for sale was pledged as a security for bills payable and bank borrowings made available to the Group (Notes 28 and 29).

25 SHARE CAPITAL AND SHARE PREMIUM – GROUP AND COMPANY

	Number of ordinary shares (thousands)	Nominal value of ordinary shares HKD
Authorized:		
At 31 December 2013 and 31 December 2014	10,000,000	1,000,000

	Number of ordinary shares	Nominal value of ordinary shares HKD	Equivalent nominal value of ordinary shares RMB	Share premium RMB	Total RMB
Issued and fully paid:					
At 1 January 2013	1	0.0001	0.0001	–	0.0001
Capitalization of shares (note (i))	1,439,999,999	144,000	112,778	(112,778)	–
Issuance of shares under initial public offering (note (ii))	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 and 31 December 2014	1,800,000,000	180,000	140,972	483,413,485	483,554,457
		HKD'000	RMB'000	RMB'000	RMB'000
At 31 December 2013 and 31 December 2014	1,800,000,000	180	141	483,413	483,554

Notes:

(i) 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.

(ii) 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.

26 CAPITAL AND STATUTORY RESERVES – GROUP

(a) During the year ended 31 December 2013, the controlling shareholder made cash contributions of RMB118,559,000 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.

27 RESERVES – COMPANY

	Note	Capital reserve RMB'000 (Note 26(a))	Retained earnings RMB'000	Total RMB'000
As at 1 January 2013		596,962	39	597,001
Total comprehensive income				
Profit for the year		–	152,024	152,024
Transaction with owners:				
Capital injection from a shareholder	26(a)	118,559	–	118,559
Dividends	15	–	(91,754)	(91,754)
		118,559	(91,754)	26,805
As at 31 December 2013		715,521	60,309	775,830
As at 1 January 2014		715,521	60,309	775,830
Total comprehensive income				
Profit for the year		–	60,268	60,268
Transactions with owners:				
Dividends	15	–	(53,147)	(53,147)
As at 31 December 2014		715,521	67,430	782,951

The profit attributable to the owners of the Company is dealt with in the financial statements of the Company to the extent of RMB60,268,000 (2013: RMB152,024,000).

28 TRADE AND OTHER PAYABLES

	Group	
	2014	2013
	RMB'000	RMB'000
Trade payables	**243,558**	156,128
Bills payable	**12,750**	5,300
Trade and bills payables	**256,308**	161,428
Other tax payable	**28,715**	9,483
Salary and welfare payables	**29,673**	12,519
Retention fee payables	**9,671**	90
Deposits received in advance	**3,617**	2,209
Accrued listing fee	**–**	9,966
Others	**7,467**	10,406
	335,451	206,101

	Company	
	2014	2013
	RMB'000	RMB'000
Salary and welfare payables	**96**	23
Accrued listing fee	**–**	9,966
Others	**2,831**	2,745
	2,927	12,734

Notes:

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

	2014	2013
	RMB'000	RMB'000
0 to 30 days	**116,656**	88,643
31 to 60 days	**122,236**	67,416
61 to 90 days	**9,973**	57
Over 90 days	**7,443**	5,312
	256,308	161,428

28 TRADE AND OTHER PAYABLES (Continued)

Notes: (Continued)

(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	
	2014	2013
	RMB'000	RMB'000
RMB	**331,631**	192,673
HKD	**3,820**	13,428
	335,451	206,101

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 2014, the Group's bills payable were secured by certain property, plant and equipment, pledged deposits and assets classified as held for sale of the Group (Notes 16, 23 and 24). As at 31 December 2013, the Group's bills payable were secured by certain property, plant and equipment, investment property and pledged deposits of the Group (Notes 16, 17 and 23).

29 BORROWINGS

	Group	
	2014	2013
	RMB'000	RMB'000
Secured bank borrowings	**54,000**	59,000

The bank borrowings are repayable within one year.

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

	2014	2013
	RMB'000	RMB'000
Borrowing at:		
Fixed interest rate	**–**	30,000
Floating interest rate	**54,000**	29,000
	54,000	59,000

As at 31 December 2014, the effective interest rate of the Group's borrowings is 6.38% (2013: 6.82%). The carrying amounts of the Group's borrowings approximate their fair values due to short maturity date and are denominated in RMB.

As at 31 December 2014, the Group's borrowings were secured by certain property, plant, and equipment, pledged deposits and assets classified as held for sale and of the Group (Notes 16, 23 and 24). As at 31 December 2013, the Group's borrowings were secured by certain property, plant, and equipment, investment property and pledged deposits of the Group (Notes 16, 17 and 23).

30 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	
	2014 RMB'000	2013 RMB'000
At 1 January	**(7,087)**	(5,406)
Charged to the consolidated statement of comprehensive income (Note 13)	**(4,430)**	(1,133)
Charged to equity	**–**	(548)
At 31 December	**(11,517)**	(7,087)

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

Deferred income tax assets

	Accelerated accounting depreciation RMB'000	**Tax losses RMB'000**	**Others RMB'000**	**Total RMB'000**
At 1 January 2013	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
Charged to the consolidated statement of comprehensive income	(820)	(1,226)	598	(1,448)
At 31 December 2014	814	–	598	1,412

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 recognize deferred income tax assets of RMB811,000 (2013: nil) in respect of losses amounting to RMB3,245,000 (2013: nil) that can be carried forward against future taxable income as at 31 December 2014. These losses is expiring in 2019.

30 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 2013	(7,898)	–	(7,898)
Charged to the consolidated statement of comprehensive income	(1,501)	–	(1,501)
Charged to equity	–	(548)	(548)
At 31 December 2013	(9,399)	(548)	(9,947)
Charged to the consolidated statement of comprehensive income	(607)	(2,375)	(2,982)
At 31 December 2014	(10,006)	(2,923)	(12,929)

As at 31 December 2014, management is of the view that undistributed earnings totalling RMB809,263,000 (2013: RMB540,401,000) are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of RMB40,463,000 (2013: RMB27,020,000) 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:

	2014 RMB'000	2013 RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	**814**	1,634
– to be recovered within 12 months	**598**	1,226
	1,412	2,860
Deferred income tax liabilities		
– to be settled within 12 months	**(12,929)**	(9,947)
Deferred income tax liabilities – net	**(11,517)**	(7,087)

31 DERIVATIVE FINANCIAL LIABILITIES – GROUP AND COMPANY

	2014 **RMB'000**	2013 RMB'000
At 1 January	**–**	–
At issue day	**15,120**	–
Fair value loss recognised in profit and loss	**2,880**	–
At 31 December	**18,000**	–

On 8 December 2014, the Company issued 180,000,000 unlisted warrants (the "Warrants") at a price of HKD0.105 per Warrant (approximately RMB0.084 per Warrant). Each Warrant entitles the holder to acquire one ordinary share at an exercise price of HKD2.2 per share (approximately RMB1.76 per share) for a period of 12 months from the issue date.

As the exercise price of the Warrants is fixed in HKD and the functional currency of the Company is in the RMB, the Warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. The fair value of Warrants is reclassified to equity upon exercise. The Warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in profit or loss.

On the date of issue, these Warrants were valued at HKD0.105 per Warrant (approximately RMB0.084 per Warrant) for a total of HKD18,900,000 (approximately RMB15,120,000).

On 31 December, 2014, the fair value of Warrant issued were valued at HKD0.125 per Warrant (approximately RMB0.1 per Warrant) for a total of HKD22,500,000 (approximately RMB18,000,000) and the Group recognized a loss of RMB2,880,000 during the year.

The financial instruments was valued on 8 December 2014 and 31 December 2014 by an independent professionally qualified valuer, Cushman & Wakefield Valuation Advisory Services (HK) Limited which is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of similar financial instruments.

Management reviews the valuation performed by the independent valuer for financial reporting purposes. The review includes verification of all major inputs to the valuation and discussions with the independent valuer.

The valuation of the financial instruments on 8 December 2014 and 31 December 2014 is determined by Binomial Lattice Model based on significant unobservable inputs and is recognized under level 3 of the fair value hierarchy.

31 DERIVATIVE FINANCIAL LIABILITIES – GROUP AND COMPANY (Continued)

The key unobservable inputs of the valuation are summarized as follows. These assumptions are estimated by the valuer based on the profile of the financial instruments being valued.

	Issue date as at 8 December 2014	**31 December 2014**
Conversion price	HKD2.2	HKD2.2
Share price	HKD1.8	HKD1.8
Expected volatility	34.15%	38.13%
Remaining life	1 years	0.94 years
Risk-free rate	0.09%	0.12%

32 INVESTMENT IN A SUBSIDIARY

	Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost (note (a))	**703,877**	703,877
Amount due from a subsidiary (note (b))	**451,607**	–
	1,155,484	703,877

32 INVESTMENT IN A SUBSIDIARY (Continued)

Notes:

(a) 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 2014	Effective interest held as at 2013
Directly held by the Company:						
China Prosper Int'l Ltd. 華茂國際有限公司	British Virgin Islands, (the "BVI") 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	Properties rental	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	HKD835,000,000	**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%
Allen Electronics Co., Ltd. Anhui 安徽亞倫電子科技有限公司	PRC, 16 January 2014	Manufacturing and sale of electric fireplace	Foreign investment enterprise with limited liability	RMB100,000,000	**100%**	N/A

(b) Amount due from a subsidiary is unsecured, interest-free, will not be demanded for repayment and is considered as quasi-equity.

33 CASH GENERATED FROM OPERATIONS

	2014 RMB'000	2013 RMB'000
Profit before income tax	**444,195**	388,598
Adjustments for:		
– Amortization of land use rights	**3,076**	2,604
– Loss on disposal of property, plant and equipment	**165**	66
– Impairment loss on property, plant and equipment	**2,393**	–
– Depreciation of property, plant and equipment	**11,983**	11,917
– Interest income	**(3,247)**	(3,001)
– Finance costs	**2,420**	4,481
– Foreign exchange losses on operating activities	**4,636**	2,748
– Bad debts written-off	**1,413**	1,930
– Fair value gain on investment property	**(9,500)**	–
– Fair value loss on derivative financial liabilities	**2,880**	–
Changes in working capital:		
– Increase in inventories	**(12,753)**	(10,274)
– Increase in trade receivables	**(236,329)**	(50,993)
– Decrease/(increase) in deposits, prepayments and other receivables	**87,226**	(83,383)
– (Increase)/decrease in pledged deposits	**(3,184)**	73,449
– Increase/(decrease) in trade and other payables	**129,350**	(57,173)
Cash generated from operations	**424,724**	280,969

34 COMMITMENTS

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

	2014 RMB'000	2013 RMB'000
Authorized but not contracted for		
– Land use rights	**33,277**	115,500
– Property, plant and equipment	**91,585**	439,000
	124,862	554,500
Contracted but not provided for		
– Land use rights	**17,210**	–
– Property, plant and equipment	**47,799**	2,259
	65,009	2,259

34 COMMITMENTS (Continued)

(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:

	2014 **RMB'000**	2013 RMB'000
No later than one year	**1,255**	864
Later than one year and no later than five years	**2,408**	3,240
	3,663	4,104

(c) Operating leases (as lessor)

The Group leases out investment property under operating leases. The future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of investment property as follows:

	2014 **RMB'000**	2013 RMB'000
No later than one year	**8,595**	8,595
Later than one year and no later than five years	**45,582**	44,519
Later than five years	**117,077**	126,735
	171,254	179,849

35 RELATED-PARTY TRANSACTIONS

As at 31 December 2014, the Group is controlled by China Wisdom Asia Limited (incorporated in the BVI) which owns 62% of the Company's shares. The remaining 38% of the shares are widely held. The ultimate parent of the Group is Central Profit Group Limited (incorporated in the BVI). The ultimate controlling party of the Group is Mr. Chen Fanglin.

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

(a) Purchase of services

	2014 RMB'000	2013 RMB'000
Rental expense (note)	**864**	72

Note:

It represents rental expense of a home furnishing concept shop paid or payable to Quanzhou Xinliya Trading Co., Ltd, a company beneficially owned by Mr. Chen Fanglin, and was determined at prevailing market rate of similar shops nearby.

(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:

	2014 RMB'000	2013 RMB'000
Directors' fees	**285**	–
Basic salaries, housing allowances, other allowances and benefits in kind	**3,710**	1,307
Social security and pension costs	**911**	183
	4,906	1,490

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five financial years, as extracted from the audited financial statements and the Company's prospectus dated 10 December 2013, is set out below:

RESULTS

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,409,006**	1,195,522	969,026	804,072	751,819
Cost of sales	**(840,026)**	(666,072)	(540,829)	(472,842)	(429,299)
Gross profit	**568,980**	529,450	428,197	331,230	322,520
Selling and distribution costs	**(64,111)**	(59,851)	(53,504)	(48,687)	(33,941)
Administrative expenses	**(78,651)**	(83,002)	(42,995)	(29,502)	(25,388)
Other income	**13,777**	6,482	2,613	1,883	597
Other gains-net	**6,620**	–	–	–	–
Operating profit	**446,615**	393,079	334,311	254,924	263,788
Finance costs	**(2,420)**	(4,481)	(2,992)	(1,687)	(1,303)
Profit before income tax	**444,195**	388,598	331,319	253,237	262,485
Income tax expense	**(89,282)**	(85,369)	(69,690)	(34,976)	(43,542)
Profit for the year attributable to owners of the Company	**354,913**	303,229	261,629	218,261	218,943
Earnings per share – Basic and diluted (RMB)	**0.20**	0.21	0.18	0.15	0.15

ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**2,382,667**	1,921,627	1,164,118	757,319	759,814
TOTAL LIABILITIES	**461,194**	301,920	359,641	160,071	214,827
TOTAL EQUITY	**1,921,473**	1,619,707	804,477	597,248	544,987