THE BEAUTY OF THE WORLD

2014 annual report

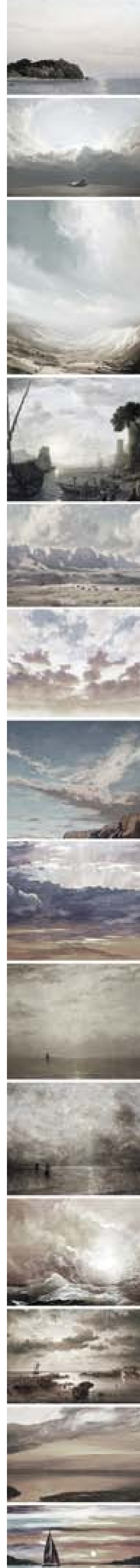
東鵬控股股份有限公司

Dongpeng Holdings Company Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code : **3386**

Contents



PERFECTION 極致，世界之美。
BEAUTY OF THE WORLD

Dongpeng pursues the utmost beauty state of nature, philosophy and humanity, explores the essence of its core and depicts it on products, achieving the ultimate restoration of creative expressions.

Financial Highlights

	2014 RMB'000	2013 RMB'000	Change
Revenue	**3,893,101**	3,368,219	15.6%
Gross Profit	**1,497,800**	1,248,451	20.0%
Gross Profit Margin (%)	**38.5%**	37.1%	1.4 pts
SG&A Expenses/Revenue (%)	**20.2%**	19.0%	1.2 pts
EBITDA Margin (%)	**23.4%**	19.8%	3.6 pts
Net Profit attributable to Owners of the Company	**563,711**	339,498	66.0%
Net Profit Margin (%)	**14.5%**	10.1%	4.4 pts
Basic EPS (RMB cents)	**45**	36	25.0%
Diluted EPS (RMB cents)	**44**	36	22.2%
Annual Dividend per Share (HK cents)	**17**	7	142.9%

- Revenue for the year ended 31 December 2014 amounted to approximately RMB3,893.1 million, representing an increase of 15.6% from approximately RMB3,368.2 million recorded in 2013.
- Gross profit for the year ended 31 December 2014 amounted to approximately RMB1,497.8 million, representing an increase of 20.0% from approximately RMB1,248.5 million recorded in 2013.
- Net profit attributable to owners of the Company for the year ended 31 December 2014 amounted to approximately RMB563.7 million, representing an increase of 66.0% from approximately RMB339.5million in 2013.
- The board (the "**Board**") of directors (the "**Directors**") of Dongpeng Holding Company Limited (the "**Company**" or "**Dongpeng**", together with its subsidiaries, the "**Group**") proposed the payment of a final dividend of HK$17 cents per share, representing 30% dividend payout ratio, for the year ended 31 December 2014.

Financial Summary (5 years)

	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014** **RMB'000**
Results					
Turnover	974,627	1,978,953	2,497,924	3,368,219	**3,893,101**
Cost of goods sold	(774,012)	(1,410,580)	(1,609,554)	(2,119,768)	**(2,395,301)**
Gross profit	200,615	568,373	888,370	1,248,451	**1,497,800**
Other income	5,781	18,303	42,924	82,758	**195,015**
Other gains and losses	(3,420)	(9,564)	(6,540)	(24,522)	**(24,718)**
Selling and distribution costs	(109,585)	(255,915)	(440,127)	(423,965)	**(505,723)**
Administrative expenses	(58,159)	(95,243)	(189,634)	(215,218)	**(281,224)**
Share-based payment expenses	—	—	—	(16,971)	**(40,323)**
Other expenses	(6,770)	(11,917)	(25,560)	(74,352)	**(82,344)**
Share of loss of a joint venture	(1,322)	—	—	—	**—**
Change in fair value of redeemable convertible preferred shares	—	—	—	(35,955)	**—**
Finance costs	(14,257)	(16,372)	(29,235)	(38,043)	**(35,924)**
Profit before taxation	12,883	197,665	240,198	502,183	**722,559**
Taxation	(5,599)	(49,723)	(67,358)	(157,007)	**(158,072)**
Profit for the year	7,284	147,942	172,840	345,176	**564,487**
Assets and liabilities					
Non-current assets	541,138	825,111	1,093,958	1,546,945	**1,794,758**
Current assets	1,028,559	1,528,310	1,827,006	2,267,050	**2,407,068**
Total assets	1,569,697	2,353,421	2,920,964	3,813,995	**4,201,826**
Current liabilities	1,351,844	1,987,135	2,543,499	1,712,128	**1,581,223**
Non-current liabilities	136,749	132,240	115,539	154,485	**132,008**
Total liabilities	1,488,593	2,119,375	2,659,038	1,866,613	**1,713,231**
Net assets	81,104	234,046	261,926	1,947,382	**2,488,395**

The results and summary of assets and liabilities for each of the three years ended 31 December 2012 which were extracted from the Company's prospectus dated 18 November 2013 (the "**Prospectus**") have been prepared on a combined basis to present the results of the Group as if the Group structure, at the time when the Group Reorganisation was completed on 29 January 2013, has been in existence throughout those years.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. He Xinming *(Chairman of the Board)*
Mr. Chen Kunlie
Mr. Bao Jianyong

Non-executive Directors

Mr. Su Sen
Mr. Sun Qian
Ms. Sun Limei

Independent Non-executive Directors

Mr. Yin Hong
Ms. Hsieh H., Lily
Mr. Wu Haibing

JOINT COMPANY SECRETARIES

Mr. Bao Jianyong
Ms. Yuen Wing Yan, Winnie

AUTHORISED REPRESENTATIVES

Mr. Bao Jianyong
Ms. Yuen Wing Yan, Winnie

AUDIT COMMITTEE

Mr. Wu Haibing *(Chairman)*
Ms. Hsieh H., Lily
Mr. Su Sen

REMUNERATION COMMITTEE

Ms. Hsieh H., Lily *(Chairman)*
Mr. Yin Hong
Mr. He Xinming

NOMINATION COMMITTEE

Mr. He Xinming *(Chairman)*
Mr. Yin Hong
Mr. Wu Haibing

COMPLIANCE COMMITTEE

Mr. Bao Jianyong *(Chairman)*
Mr. Wu Haibing
Mr. Su Sen

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 8 Jiangwan Third Road
Chancheng District
Foshan, Guangdong
PRC

PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Corporate Information

PRINCIPAL BANKS

Industrial and Commercial Bank of China Ltd
Shiwan Branch
13 Jiangwan Third Road
Chancheng district
Foshan, Guangdong
PRC

Bank of China Limited
Shiwan Branch
7 Central Second Road
Shiwan, Chancheng district
Foshan, Guangdong
PRC

LEGAL ADVISORS

As to Hong Kong Law
Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place, Central
Hong Kong

As to Cayman Islands Law
Appleby
2206-19, 22nd Floor
Jardine House
1 Connaught Place
Central
Hong Kong

COMPLIANCE ADVISOR

Quam Capital Limited
18/F China Building
29 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

Stock code: 3386
Board Lot: 1,000

WEBSITE

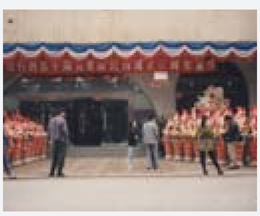
www.dongpeng.net

DONGPENG
THE BEAUTY OF THE WORLD
东鹏·世界之美

DONG PENG 东鹏瓷砖

A SMALL STEP FORWARD FOR DONGPENG CERAMICS IS A GIANT LEAP FOR THE WHOLE INDUSTRY.


90's
The exterior of Dongpeng Ceramic Central Factory


1994
The 3rd anniversary of the establishment of Shiwan Dongpeng Ceramic Group (石灣東平陶瓷集團)


1997
The official establishment of Dongpeng Ceramic Group, and the inauguration of the exhibition hall of the headquarters in the same year


2005
The exterior of Dongpeng Building (東鵬大廈)


2013
Dongpeng Holdings was successfully listed in Hong Kong on 9 December

DONGPENG CERAMICS: PERSISTANCE IN CREATION

2015 Beauty of the World

In 2015, Dongpeng gathered the power of original creation with the stunning launch of the "Beauty of the World" pure original product series, depicting the grand beauty of the boundless world with the four chapters of "Beauty of Tao", "Beauty of the Sky", "Beauty of Water" and "Beauty of Human".

2011 Crystal Porcelain

In 2011, it was created by integrating crystal and ceramics seamlessly using the "crystal·porcelain composite" technology. With the luxury temperament of polished tiles, it has the real texture of rustic tiles and the bright and clean texture of glazed tiles. By launching the fourth product category in the industry, Dongpeng leads the industry trend again

2009 Pininfarina

In 2009, it was designed by Pininfarina of Italy, the official design firm for Ferrari, and inherits the genuine bloodline of Italy. The product incorporates the updated elements of arts, technology and fashion and opens a new era of rustic tiles. Both Obama and Putin have chosen the series.

2006 Carrara Stone

In 2006, Dongpeng took the lead in launching "Carrara Stone" which inherits the bloodline of famous stones in Italy. Carrara Stone exists specially for distinguished villas, restoring natural Carrara stones in Italy. While only three master similar technology in the world, Dongpeng is the only one in China.

2008 Navona Stone

In 2008, the Navona hole-free travertine was successfully launched. This was a legend, which witnessed the revolutionary change of ceramic tiles from without holes to with holes and then from with holes to without holes. Navona was honoured by the Ceramic Weekly of the United States as the "vitrified tile that resembles stone most in the world".

1998 Perlato Svevo

Perlato Svevo is the first series of products put into production under the Dongpeng brand and is the starting point for Dongpeng to develop towards a "well-known brand for building ceramics in China". Perlato Svevo has achieved instant fame upon its launch. This has established the leading position of Dongpeng in the field of research and development, thereby setting off a consumption wave of using yellow ceramic tiles throughout the country.

PERSISTANCE IN CREATION

> "We believe that the Group's solid operational systems and its direct access to the capital market, will accelerate the Group's business expansion, and better prepare the Group for future market consolidation and generate higher returns for the Shareholders."

He Xinming

Chairman

Chairman's Statement

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am delighted to present to all shareholders the 2014 annual report of the Group for the fiscal year ended 31 December 2014. I would like to express, on behalf of the Board, our appreciation to all shareholders of the Company (the "**Shareholders**") and all friends who have provided their support on the development of Dongpeng.

The Group is the largest ceramic tile company in the PRC in terms of retail sale value in 2012. * In 2013 and 2014, the Group has continued to be amongst the top players in terms of retail sales value in China's ceramic tile market. In 2014, the Group was given the title as a "Hong Kong Outstanding Enterprise 2014" by "Economic Digest" (經濟一週), and was included in Morgan Stanley Capital International (MSCI) Global Small Cap Index- China, which represent recognition of the Company's leading position in the ceramic industry by the PRC's public and investment community.

Despite the difficulties faced by the home decoration and improvement market in 2014, the Group has continued to achieve outstanding performance by adopting effective measures in response to market volatility by fully capitalizing on our competitive advantages in operational excellence, product mix and optimizing business structure. In 2014, the Group's revenue, profit before tax and profit attributable to the Company was approximately RMB3,893.1 million, RMB722.6 million and RMB563.7 million, representing an increase of 15.6%, 43.9% and 66.0% over 2013, respectively. In 2014, the Group recorded a gross profit of approximately RMB1,497.8 million, representing an increase of 20.0% over 2013, while the overall gross margin slightly increased to approximately 38.5% in 2014. (2013: 37.1%).

The Group has achieved outstanding growth in 2014, mainly due to:

i) implementation of effective marketing strategies, including improvement of store level profitability, expansion in sales network coverage and penetration into third and fourth tier cities. As of 31 December 2014, the Group had 1,979 ceramic tile retail outlets (including self-owned and third party operated), covering over 600 cities across all provinces in China, representing an increase by 370 retail outlets comparing to the year of 2013.

ii) research and development, including devoting significant resources into its technological innovation, new products design and development. In 2014, the Group's research and development team consisted of 402 professional staff, representing an increase of 35.8% compared to 2013.

iii) operational excellence, including optimizing product mix and production planning, improving economies of scale, and greater synergy between ceramic tile and bathroom product, which contributes to the 1.4% increase in gross profit; and

iv) the Group entered into a cooperation agreement with Innoci International L.L.C in relation to the acquisition of 62% equity interests in Guangzhou Yinai Sanitary Products Co. Ltd ("**Guangzhou Yinai**") by making a capital contribution of RMB15 million.

* These figures are based on the independent market research report commissioned by Frost & Sullivan, an idependent research firm, in October 2013.

Chairman's Statement

In 2015, China will confront the so-called "new normal" of slower growth, and is strengthening its effort to support the housing market by lowering down payments for buyers of second homes. The inelastic demands for housing, consumption upgrade, and urbanization continues to be the key drivers for China's economy and housing market, which will in turn support the development of home decoration and improvement industry. In the mean time, under the "One Belt, One Road" initiative, China aims to bolster infrastructure links which includes a network of railways, highways, and other infrastructure across Central, West and South Asia, which will further spur the growth of ceramic tile and bathroom product industry. With the strong market influence and reputable product quality in the national and oversea markets, it is foreseeable that the Group will benefit from this.

Looking forward, we foresee that the Group will continue to strengthen its financial results through bolstering its brand recognition and further solidifying its leading market position in China's ceramic tile and bathroom product market. With that in mind, the Group endeavors to introduce more innovative products, expand its sales network in both the domestic and international markets, and further improve its operational efficiency. In addition, the Group will in the near future provide a one-stop home decoration solution to both homeowners and real estate developers under the brand name of Dongpeng Home (東鵬家居), and continue to step up its online sales efforts in response to developing purchasing habits of the younger generation.

Meanwhile, the Group is firmly committed to incorporating corporate social responsibilities into its operational strategy. In 2015, the Group intends to introduce two advanced production lines; the first fully utilizes recycled tiles for producing foam tiles, and the other produces large sized ultra-thin tiles, which will significantly reduce material consumptions. Further, the Group will employ energy-saving equipment, including the installation of about 100 thousand square meters of solar photovoltaic panel in Qiangyuan production plant.

Chairman's Statement

We believe that the Group's solid operational systems and its direct access to the capital market, will accelerate the Group's business expansion, and better prepare the Group for future market consolidation and generate higher returns for the Shareholders.

The Group has continued to embrace new challenges and deliver commendable financial results. On behalf of the Board, I would like to express my sincere appreciation to all Shareholders, our highly conscientious and dedicated management team and diligent staff for their continuous devotion and support to the Group.

He Xinming
Chairman of the Board

16 March 2015

Management Discussion and Analysis

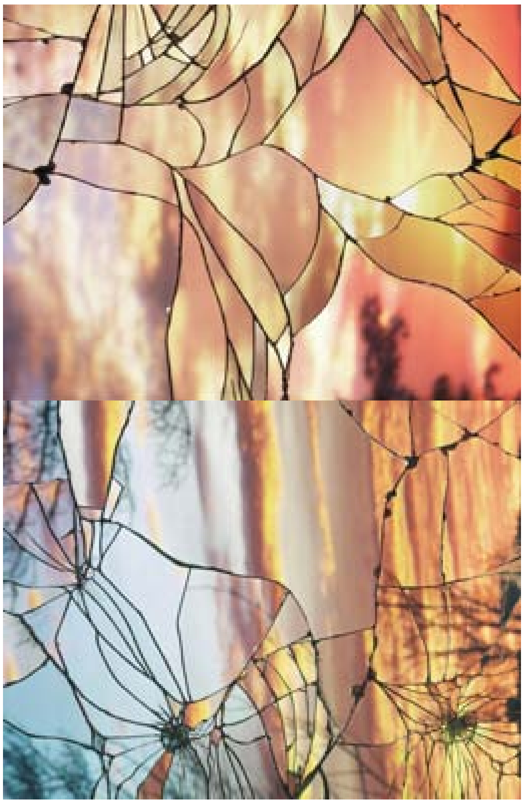
Beauty of the Sky

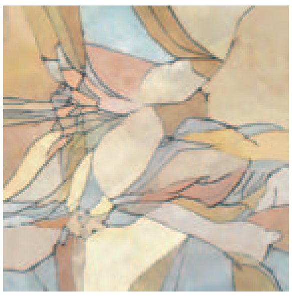
The product idea was derived on the basis of careful observations made by designers on the changes in colour of the sky during morning, noon and evening. By leveraging the brush strokes of oil paintings and exquisite colours, it depicts beautiful poetries written by the time cycle in the sky.

FG805731
800X800mm

Strong abrasive resistance 强耐磨
Anti-acid and alkali 耐酸碱
High rigidity 高硬度
No radiation 无辐射

The product design is inspired by the early morning misty and awakening view. With a sense of hope and vigor reflected by the fresh yellow tone, the soft colour gives an overall touch of comfortable and natural feelings.





FG805738
800X800mm

Strong abrasive resistance 强耐磨 | Anti-acid and alkali 耐酸碱 | High rigidity 高硬度 | No radiation 无辐射

The product design is inspired by the sky behind fragmented glass. It's a secret and unique colour language with irregular lines, creating a delighted and beautiful sentiment of harmony, delivering the romantic mood of western modern irrationalism.

Management Discussion and Analysis

MARKET REVIEW

The economy of China continued to be under pressure from decelerating growth, struggling economic adjustments and burdening stimulus policies. According to the National Bureau of Statistics of China, China's gross domestic product reached RMB63.6 trillion in 2014, representing a growth rate of 7.4%, which is lower than the growth rate of 7.7% in 2013, while the Consumer Price Index increased by 2.0%, which barely reached the targets set by China's central at the beginning of 2014.

China continued to adopt both a proactive and prudent attitude in formulating its fiscal measures and monetary policies. During the first half of 2014, China's central government implemented restrictive policies on the real estate market in an attempt to curb speculations of properties in China. However, during the second half of 2014, China's central government began to alleviate its control over the real estate market and increase money supply, which in turn lowered the interest rates and reduced financing cost for the real estate market.

Despite the uncertainties in the real estate market and China's macro economy, it is expected that the housing market will be driven by an inelastic demand and consumers' consumption upgrade in the future.

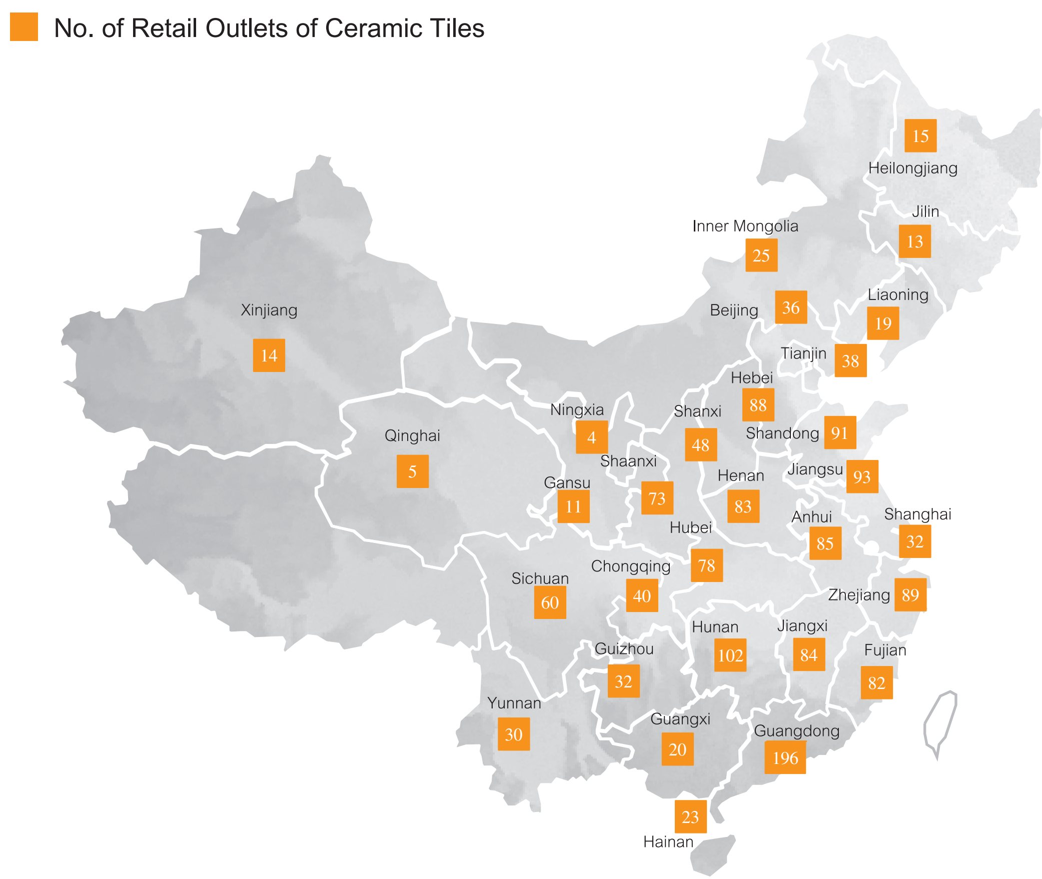
Further, urbanization is expected to become one of the key drivers for China's medium to long term growth, which will in turn support the development of home decoration and improvement industry. According to the data released by the National Bureau of Statistics of China, China's urbanization rate reached 54.8% in 2014, representing an increase of 1.1% over the urbanization rate of 53.7% in 2013. The urbanization rate of China is expected to increase with an annual growth rate of 1%, according to the Central Urbanization Work Conference held in December 2013. Moreover, the State Council of China launched the "National New-Type Urbanization Plan (2014-2020)" which sets out the future development directions of China's urbanization and targets to lift the urbanization rate to 60% by 2020. "New-type urbanization" will provide a strong support for China's economic growth and, bring a sustainable and steady demand for the home decoration and improvement industry. In addition, consumers' upgrade in the demand for purchasing second residential property and remodeling activities are expected to further boost demand for home decoration and improvement products.

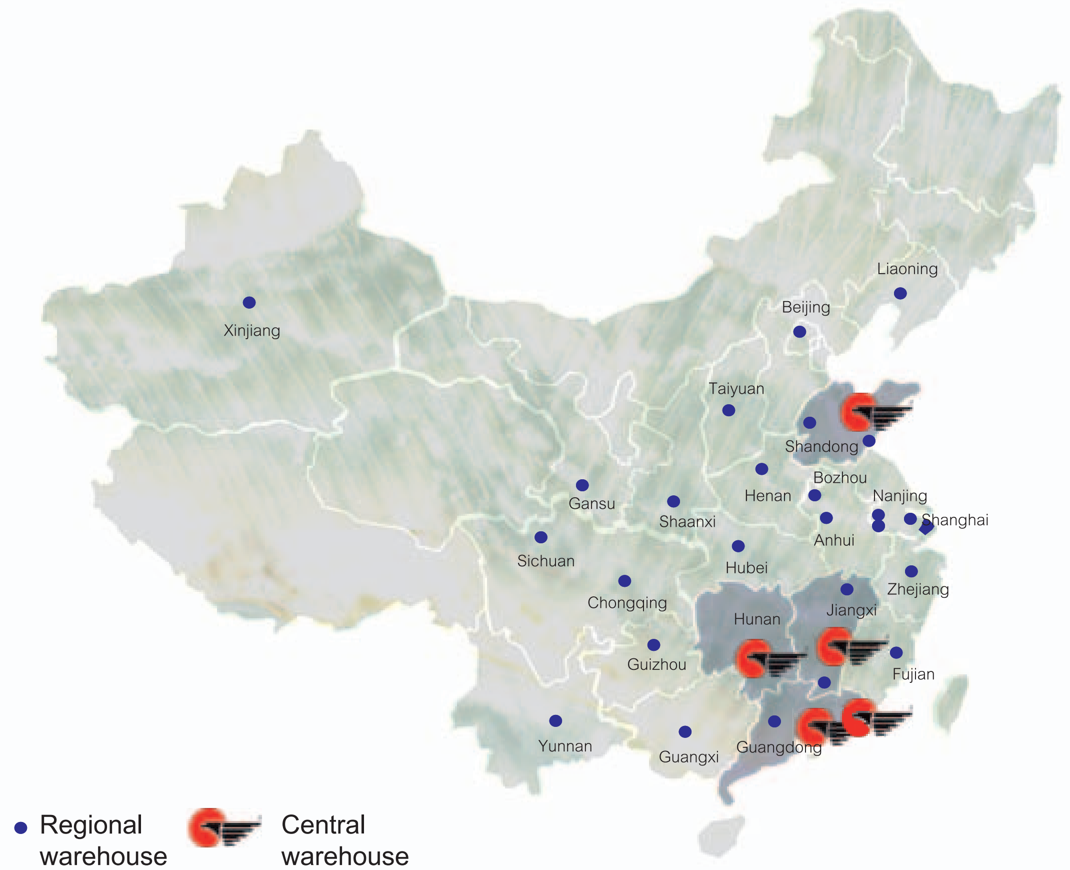
Management Discussion and Analysis

As the market leader in the ceramic tiles and bathroom products markets, the Group, with its operational excellence, is poised to take advantage of any boost in market demand for its products. The Group will continue to seek opportunities and retain its leading position in the ceramic tile and bathroom product markets.

BUSINESS REVIEW

The Group has been the largest ceramic tile company in the PRC in terms of retail sale value in 2012. In 2013 and 2014, the Group continued to be amongst the top players in terms of retail sales value in China's ceramic tile market. The Group was given the title as a "Hong Kong Outstanding Enterprise 2014" by "Economic Digest" (經濟一週), which signifies a new chapter for the Dongpeng brand, solidifying the Group's commitment towards the development and promotion of China's ceramic tile and bathroom products market.




Liaoning
Beijing
Xinjiang
Taiyuan
Shandong
Bozhou
Henan
Nanjing
Gansu
Shaanxi
Shanghai
Anhui
Sichuan
Hubei
Zhejiang
Chongqing
Jiangxi
Hunan
Guizhou
Fujian
Yunnan
Guangxi
Guangdong
Regional warehouse
Central warehouse

Management Discussion and Analysis

Notwithstanding a fairly challenging year in 2014 for the home decoration and improvement market, the Group managed to continue its growth over the past year. In 2014, the Group's revenue, profit before tax and profit attributable to owners of the Company was approximately RMB3,893.1 million, RMB722.6 million and RMB563.7 million, representing an increase of 15.6%, 43.9% and 66.0% over 2013, respectively. In 2014, the Group recorded a gross profit of approximately RMB1,497.8 million, representing an increase of 20.0% over 2013, while the overall gross profit margin slightly increased to approximately 38.5% in 2014. (2013: 37.1 %).

Implementation of Effective Marketing Strategies

The Group continued to achieve significant growth in 2014, a result of further consolidation in its sales and marketing strategies including improvement of store-level output, expansion in sales network coverage and penetration into third and fourth tier cities. The Group's dual sales model of direct sales and third party distributors have continued to facilitate an effective and efficient expansion strategy, enabling the Group to increase its brand awareness, penetrate into a large customer base and delivering excellent customer service to its customers. As of 31 December 2014, the Group had 1,979 ceramic tile retail outlets (including self-owned and third party operated), covering over 600 cities across all provinces in China, an increase by 370 retail outlets comparing to the year of 2013. In addition, the total revenue from corporate sales in 2014 reached approximately RMB460.9 million, substantially increased by 29.0% on a year-on-year basis.

During 2014, as the leader of the Champion Alliance (冠軍聯盟), the Group continued to bring together eight leading household brands in the home improvement industry to participate in domestic joint marketing campaigns on a quarterly basis. These events created a strong branding synergy and generated considerable revenue through strong cross-selling effects.

Research and Development

In 2014, the Group continued to devote significant resources into its technological innovation, new products design and development. As of 31 December 2014, the Group's research and development team consisted of 402 professional staff, representing an increase of 35.8% compared to 2013.

The research and development efforts on the Group's products are largely demand driven. To best cater to market demands, the Group's sales representatives maintain close contact with the research and development team, which enables the research and development team to respond quickly and factor in changes and trends in the market during the product development process. In 2014, the Group obtained 62 patents and introduced 17 new product series including the glossy glazed tiles product series, namely, Iran White Jade series, Cappuccino series and Landscape Stone series, and the unglazed tiles product series, namely Matt Supreme Travertine series and World Travertine series.

Management Discussion and Analysis

Operational Excellence

Enhanced operational efficiency and effective control of costs continued to be the major drivers for the Group's increasing profitability.

– ***Optimize product mix and production planning***

After a thorough analysis of the Group's product portfolio, utilizing consumer preference, sales performance, production efficiency, and competitive advantage as benchmarks, the Group has maintained a successful product mix evaluation mechanism. The Group's high value-added ceramic tile products such as glossy glazed tiles are largely favored by its consumers. As of 31 December 2014, the total revenue from glossy glazed tiles has substantially increased by approximately 60% on a year-on-year basis. With less production shifting in production shifts, the product mix evaluation mechanism not only significantly increased the Group's productivity, energy efficiency and product quality, but also as a result reduced the production cost.

– ***Increasing economies of scale***

The Group continued to excel in maintaining strategic relationships with high quality suppliers while obtaining competitive pricing due to the economy of scale. In addition, during the year 2014, the Group completed the construction of 5 new production lines in the ceramic tile segment and 1 new production line in the bathroom segment. As of 31 December 2014, the total production capacity in ceramic tile reached 50.5 million sqm^2, representing an increase of 19.3% on a year-on-year basis while the utilization rate reached 97% during the year 2014.

– ***Positive synergy between ceramic tile and bathroom product***

After the acquisition of bathroom product business in May 2013, the Group further capitalized on the brand synergy and cross-selling opportunities between the ceramic tile and bathroom product business segments. The Group achieved this by conducting a variety of marketing campaigns under the brand name of 'Dongpeng' and further leveraging on shared resources and distribution network between the ceramic tile and bathroom products business segments.

– ***Utilization of on-line sales platform***

Due to rapidly changing consumers' purchasing preference, during 2014, the Group allocated more resources into the development of online sales channels to capture business opportunities in the online consumer market and create positive links between the physical and online stores. In 2014, the Group conducted online marketing sales events across China with many well-known internet portals, including Jia.com, CityTogo.com, Meilele.com, 17house.com, to8to.com, etc. These online sales events enabled the Group to reach out to new customers and capture new market opportunities.

Acquisition

According to the announcement of the Company dated 27 July 2014, on 25 July 2014, Foshan Dongpeng Sanitary Ware Co., Ltd., an indirectly wholly-owned subsidiary of the Company, entered into a cooperation agreement with Innoci International L.L.C. in relation to the acquisition of 62% equity interests in Guangzhou Yinai by making a capital contribution of RMB15 million (the "**Cooperation Agreement**"). The Group was of the view that the Cooperation Agreement will i) provide the Group with a new entry point in the contemporary and design-driven market section; and ii) allow the Group to tap into the product design capabilities and brand positioning of Guangzhou Yinai's talented and experienced product design team. Together with the production capacity, distribution channels and logistic advantages of the Company, the Group will be more effective in its continued development and expansion of market share in the mid to high-end bathroom products.

Social Responsibility

As the leading ceramic tile producer in China, the Group is committed to its corporate social responsibility, environmental protection and sustainable development of the home decoration and improvement market. The Group's efforts in environmental protection have been recognized by the industry and the general public. This includes the Group's cooperation with 'Green Alliance' (綠色聯盟) to initiate the 'China's Beautiful Countryside' social community campaign; the purpose of this campaign is to explore and support enterprises' transition into a green business model. The Group will continue its support for environmental protection and sustainable development of the home decoration and improvement industry in the future.

Management Discussion and Analysis

FINANCIAL REVIEW

The key financial indicators of the Group are as follows:

	31 December 2014	31 December 2013	Year-on-year change (%)
Income statement items			
(Expressed in RMB'000 unless otherwise stated)			
Sales	**3,893,101**	3,368,219	15.6
Gross profit	**1,497,800**	1,248,451	20.0
Profit attributable to owners of the Company	**563,711**	339,498	66.0
Profit attributable to non-controlling interest	**776**	5,678	(86.3)
Adjusted profit attributable to owners of the Company (Note 1)	**563,711**	375,453	50.1
EBITDA	**912,125**	666,281	36.9
Earnings per share (RMB) (Note 2)			
Basic	**0.45**	0.36	25.0
Diluted	**0.44**	0.36	22.2
Selected financial ratios			Year-on-year change (pts)
Gross profit margin (%)	**38.5**	37.1	1.4
Margin of profit attributable to owners of the Company (%)	**14.5**	10.1	4.4
EBITDA margin (%)	**23.4**	19.8	3.6
Return on average equity attributable to owners of the Company (%) (Note 3)	**26.7**	32.4	(5.7)
Gearing ratio (net debt to total equity) (Note 4) (%)	**net cash**	net cash	N/A

Notes:

(1) For the analysis of adjusted profit, the effect of the change in fair value loss of redeemable and convertible preferred shares with amount of RMB36.0 million in 2013 (2014: Nil) has been excluded.

(2) Please refer to Note 16 of the financial information for the calculation of earnings per share.

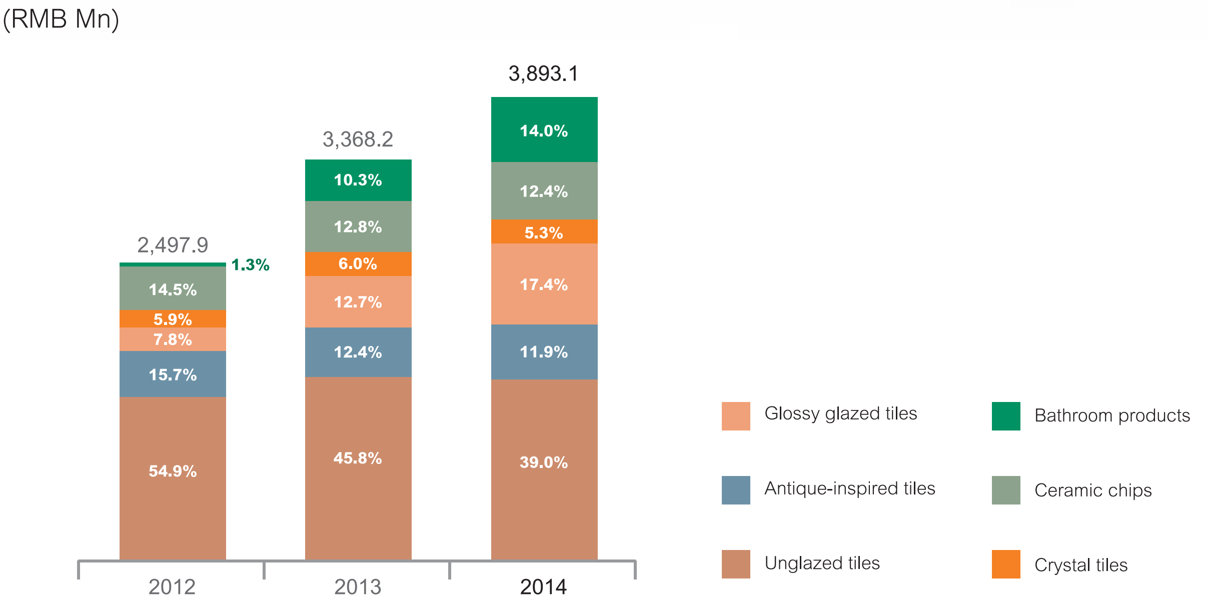
(3) The return on equity attributable to owners of the Company is based on profit attributable to owners of the Company divided by average equity attributable to owners of the Company (computed as the sum of the equity attributable to owners of the Company at the beginning and end of the year, divided by two).

(4) The gearing ratio is based on net debt (aggregate of current and non-current borrowings and current and non-current obligation under a finance lease less cash and cash equivalents) divided by total equity attributable to owners of the Company.

Revenue

The revenue of the Group increased by 15.6% from approximately RMB3,368.2 million in 2013 to RMB3,893.1 million in 2014, mainly due to the increase in the sales of our glazed tile products and bathroom products.

Revenue Breakdown by Product Category



Revenue by product category

Revenue from glazed tile products increased by 23.6% from approximately RMB1,479.1 million for the year of 2013 to RMB1,828.8 million for the year of 2014. The increase primarily reflected increases in sales of the Group's (i) new product series from glossy glazed tile category, such as Iran White Jade series (伊朗白玉系列), Cappuccino series (卡布奇系列) and Landscape Stone series (山水石系列), as sales of these products ramp up in 2014; (ii) antique-inspired tiles and their application in real estate projects; and (iii) ceramic chips, primarily attributable to the expansion and diversification into mass-market products.

Revenue from unglazed tile products decreased by 1.5% from approximately RMB1,541.5 million for the year 2013 to RMB1,518.5 million for the year of 2014. The decrease is partially attributable to the Group's effort of promoting glossy glazed tile to retail consumers, which caused cannibalization effect to unglazed tile.

Revenue from bathroom products increased by 57.0% from approximately RMB347.6 million for the year of 2013 to RMB545.8 million for the year of 2014. The increase was primarily due to the acquisition of the bathroom business in May 2013, and capacity expansion in 2014.

Revenue by sales channel

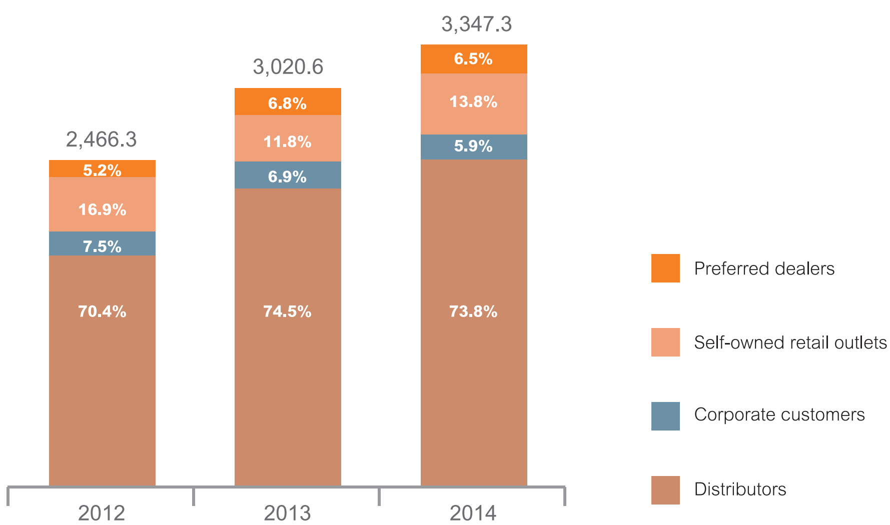
74% of the Group's ceramic tile products in terms of revenue were sold through its tier-one distributors, with the remaining 26% sold through direct sales channels (which consist of self-owned retail outlets, direct corporate sales and preferred dealers) in 2014.

Revenue from direct sales channels of ceramic tile products increased by RMB106.2 million, or 13.8%, from approximately RMB769.9 million in 2013 to RMB876.1 million in 2014. This increase was primarily attributable to the significant increase from corporate sales from RMB357.2 million to RMB460.9 million, representing 29.0% increase as a result of executing effective sales strategy.

Revenue from sales to the Group's tier-one distributors of ceramic tile products increased by RMB220.4 million, or 9.8% from approximately RMB2,250.8 million in 2013 to RMB2,471.2 million in 2014. The increase was primarily attributable to the continuing expansion of the Group's distributor network. As at 31 December of 2014, the Group has 968 tier one distributors; an increase of 376 as compared with 592 as at 31 December of 2013.

Ceramic Tile Revenue Breakdown by Distribution Channel

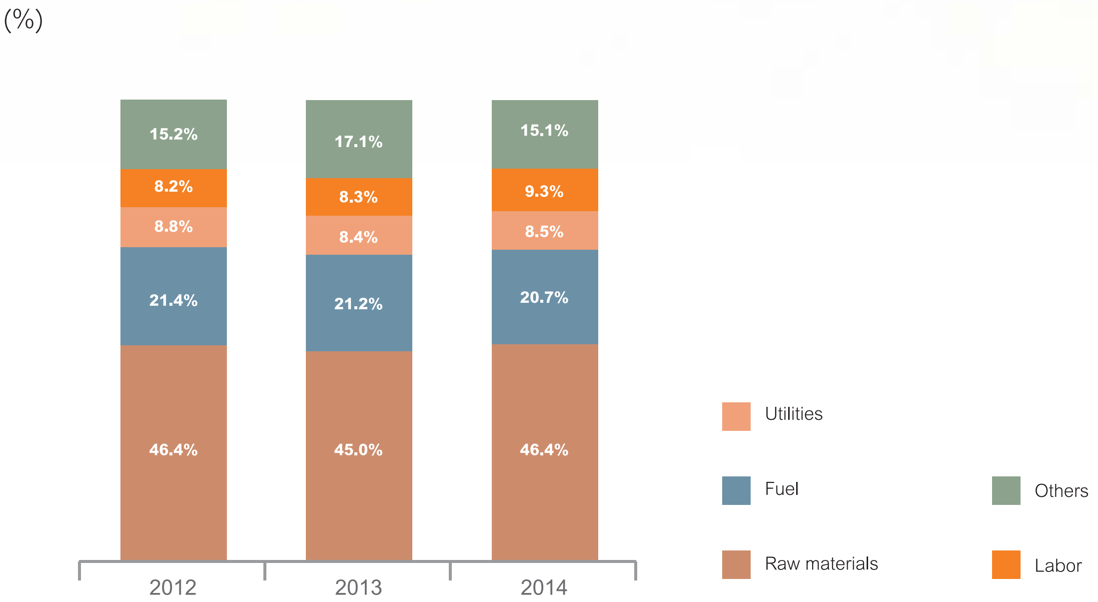
(RMB Mn)



Cost of Sales

The Group's cost of sales increased by 13.0% from approximately RMB2,120.0 million in 2013 to RMB2,395.3 million in 2014. The increase was mainly due to the increased sales volume of ceramic tile and bathroom products.

Cost of Goods Sold of Ceramic Tile



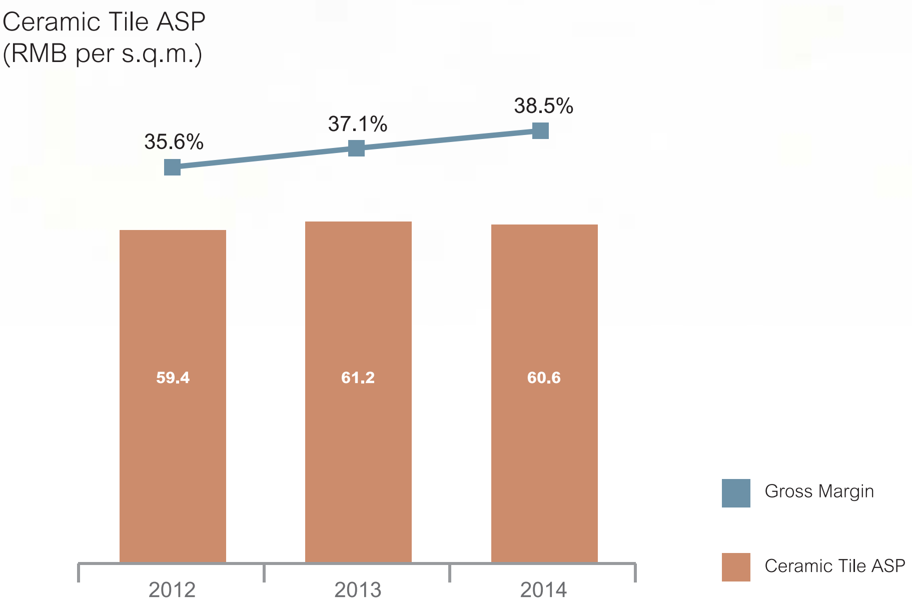
Gross Profit and Gross Profit Margin

The Group's gross profit increased by 20.0% from approximately RMB1,248.5 million in 2013 to RMB1,497.8 million in 2014. The gross profit margin increased by 1.4 percentage points from approximately 37.1% in 2013 to 38.5% in 2014.

The Group's gross profit for ceramic tile products increased from approximately RMB1,155.3 million in 2013 to RMB1,352.8 million in 2014, representing an increase in gross margin from 38.2% to 40.4%.

Management Discussion and Analysis

Gross Margin and Ceramic Tile ASP



The increase in the gross profit and gross margin for ceramic tile products are primarily due to a combination of the following reasons:

- ***Overall Operational Excellence***

  The continuing improvement in the Group's production efficiency as a result of increased production scale and effective cost control, and

- ***Better Product Mix***

  Continuing change in product mix towards high-end products such as glossy glazed tiles.

The Group's gross profit for bathroom products increased from approximately RMB93.2 million in 2013 to RMB145.0 million in 2014 mainly due to the acquisition of the bathroom product business by the group in May 2013.

Other Income

Other income increased by 135.6% from approximately RMB82.8 million in 2013 to RMB195.0 million in 2014. The increase was primarily due to (i) an increase in government grants of approximately RMB68.5 million; and (ii) an increase in bank interest income of RMB18.8 million as a result of better cash management.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of transportation expenses, advertising expenses, marketing expenses, travelling expenses, and salaries and wages for the Group's sales employees.

The Group's selling and distribution expenses increased by 19.3%, from approximately RMB424.0 million in 2013 to RMB505.7 million in 2014. The Group's selling and distribution expenses as a percentage of the Group's revenue slightly increased from 12.6% for 2013 to 13.0% for 2014, primarily due to the increase of the transportation expenses for corporate sales and increase in sales personnel.

Administrative Expenses

The administrative expenses increased by 30.7%, from approximately RMB215.2 million in 2013 to RMB281.2 million in 2014. This increase was primarily due to (i) the acquisition of the Group's bathroom business in May 2013, (ii) increase of the management consulting expenditure, and (iii) increase in local taxes as a result of operation expansion. Administrative expenses as a percentage of Group's revenue remained relatively steady at 6.4% and 7.2% in 2013 and 2014 respectively.

Other Expenses

Other expenses increased by 10.7%, from approximately RMB74.4 million in 2013 to RMB82.3 million in 2014. The increase primarily reflected expenses incurred in research and development.

Finance Costs

Finance cost decreased by 5.6% from approximately RMB38.0 million in 2013 to RMB35.9 million in 2014. The decrease in finance costs primarily reflected a decrease in bank borrowings from RMB438.0 million for the year of 2013 to RMB207.6 million for the year of 2014.

Income Tax Expenses

Income tax expenses increased by 0.7% from approximately RMB157.0 million in 2013 to RMB158.1 million in 2014. The Group's effective tax rate decreased from 31.3% in 2013 to 21.9% in 2014 mainly due to more subsidiaries obtaining preferential tax rate and decrease in the deferred withholding tax on distribution of profits of PRC subsidiaries. More details about income tax expenses are set out in Note 11 of the financial statement.

Profit for the Year

Profit for the year increased by 63.5% from approximately RMB345.2 million in 2013 to RMB564.5 million in 2014. The Group's net profit margin was 10.2% and 14.5% in 2013 and 2014, respectively. The increase of the Group's net profit margin was primarily due to the increase of its gross profit margin.

Profit before Taxation

The profit before tax increased by 43.9% from RMB502.2 million to RMB722.6 million, mainly due to increase in revenue.

Research and Development Expenses

Research and development expenses increased by 122.0% from approximately RMB24.1 million in 2013 to RMB53.4 million in 2014, mainly represented by costs associated with the development of new products.

Profit for the year attributable to the Owners of the Company

Profit attributable to owners of the Company increased from RMB339.5 million in 2013 to RMB563.7 million in 2014.

Net Profit Margin

Net profit margin increased 4.3 percentage points from 10.2% in 2013 to 14.5% in 2014. The increase in net profit margin was mainly attributable to an increase in net profits, primarily due to increases in revenue and gross margin.

FINANCIAL AND LIQUIDITY POSITION

Trade and Other Receivables

Trade receivables increase by 2.0%, from approximately RMB326.0 million as of 31 December 2013 to RMB332.4 million as of 31 December 2014, mainly due to increase of revenue. More details about trade and other receivable and the ageing analysis of trade receivable are set out in note 21 of the financial information of this annual report.

Inventories

Inventories increased by 13.1%, from approximately RMB870.0 million as of 31 December 2013 to RMB984.0 million as of 31 December 2014, primarily due to increase of production volume.

Cash and Cash Equivalents

As of 31 December 2013 and 2014, the Group's cash and cash equivalents, amounted to approximately RMB803.4 million and RMB387.7 million respectively. The decrease of cash and cash equivalent is mainly due to the repayment of bank borrowings and the management's decision of investing excess cash into restricted bank deposit to earn higher interest income.

Borrowings

As of 31 December 2014, the Group's total borrowings was RMB207.6 million. The Group's average cost of borrowings (calculated by dividing total interest expenses expensed and capitalized by average bank and other borrowings under IFRS during the relevant year) was 6.3% in 2014, versus 6.4% in 2013.

Our Group's principal sources for liquidity have been cash generated from operations and bank and other borrowings. The Company used cash from such sources for working capital and capital expenditures.

NET GEARING RATIO

The gearing ratio is measured by net debt (aggregate of current and non-current borrowings and current and non-current obligations under a finance lease less cash and cash equivalents) divided by total equity attributable to owners of the Company. As at 31 December 2014, the Group was at net cash position, hence the gearing ratio is not applicable (2013 was in net cash position as well).

CAPITAL AND CAPITAL COMMITMENT

Capital commitment as at 31 December 2014 amounted to approximately RMB192.4 million (2013: RMB147.0 million), which were mainly related to acquisition of property, plant and equipment.

SIGNIFICANT INVESTMENTS

In 2014, the Group's short-term investment of RMB126.0 million represented a financial product issued by the bank in the PRC, with an expected but not guaranteed return of from 2% to 3% per annum, subject to the market price of its underlying financial instruments, mainly comprising of bonds debentures. The short-term investment was redeemed in January 2015 at the principal amount together with approximately the expected return. Except as disclosed in this annual report, the Group does not held any other significant investment.

CONTIGENT LIABILITIES

As of 31 December 2014, the Group did not have any material contingent liability.

PLEDGE OF ASSETS/OFF BALANCE SHEET TRANSACTIONS

The following assets were pledged to secure bank borrowings and banking facilities granted to the Group and related parties at the end of the reporting period:

	2014 **RMB'000**	2013 RMB'000
Buildings	**119,521**	130,414
Equipment and machinery	**—**	50,998
Prepaid lease payments	**143,182**	136,109
Notes receivables	**14,920**	—
Pledged bank deposits	**37,085**	12,328
	314,708	329,849

Except as disclosed in this annual report, the Group has not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third parties. It does not have any interest in any unconsolidated entities that provides financing, liquidity, market risk or credit support to it or engages in leasing or hedging or research and development or other services with it.

BUSINESS OUTLOOK

Looking ahead, the Group will continue to strengthen its brand recognition and solidify its leading market position in China's ceramic tile and bathroom product market. The Group strives to further expand its sales network, provide innovative products, enhance distributor management, and continue to improve operational efficiency. In addition, the Group will continue to allocate more resources into the development of online sales channels to capture the business opportunities in the online consumer market, create positive links between physical and online stores, and capitalize the opportunities arising from the increasing demand for healthy and trendy home style of younger consumers born in the 1980s and 1990s.

Furthermore, the Group has launched and operated a comprehensive and eco-friendly one-stop decoration services under the brand name of Dongpeng Home (東鵬家居). Under this brand name, the Group will be able to provide an all-inclusive package comprising of interior design, interior decoration and provision of furniture and home appliances to both end-user customers and real estate developers. Further, the Group will also be able to provide a greater variety of low-carbon and eco-friendly choices in respect of decoration materials, furniture and home appliances.

The Group also plans to continue to devote significant resources on research and development, and to introduce more innovative product series in 2015. The Group will continue to conduct "low carbon" environmental protection strategy such as i) to establish a Foam Tile production line which will utilize recycled tiles for production; ii) to introduce large size thin tiles; and iii) to install approximately 100,000 sqm of solar photovoltaic panel in Qingyuan production site. These endeavor will make the Group the pioneer of utilizing renewable energy and recycled resources in the industry.

The Group believes that its long-established and solid operational mechanisms, and direct access to the capital market after its IPO, will fuel the Group's business expansion, preparing the Group for future market consolidation and generating higher returns for the Shareholders.

MARKET RISKS

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, amounts due from/to a related party and a director, and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. We have various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from the Group's operations. The main risks arising from our financial instruments are interest rate risk, credit risk and liquidity risk in the normal course of business.

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and financial liabilities, mainly interest bearing bank balances and bank borrowings at variable interest rates. Fixed rate bank borrowings, finance lease obligations and pledged bank deposits expose the Group to fair value interest rate risk. The Group review its borrowings regularly to monitor its interest rate exposure, and will consider hedging significant interest rate exposure should the need arise.

For details on the effective interest rates and terms of repayment of the bank borrowings of the Group as at 31 December 2014, please refer to Note 27 to the consolidated financial statements.

Liquidity risk

The Group has established an appropriate liquidity risk management policy to monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

For details on the contractual maturity of the Group's financial liabilities as at 31 December 2014, please refer to Note 6 to the consolidated financial statements.

Currency risk

The Group conducted its business primarily in the PRC with the majority of its revenue and expenditures denominated in Renminbi. The Group undertakes certain sale and purchase transaction denominated in foreign currencies, which expose the Group to foreign currency risk. The Group is mainly exposed to currency risk of United States Dollar and Hong Kong dollar against Renminbi. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

For details of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2014, please refer to Note 6 to the consolidated financial statements.

EMPLOYEES AND WELFARE CONTRIBUTION

As at 31 December 2014, the Group had 9,043 employees. The employees' remuneration packages are determined with reference to their experience and qualifications and general market conditions.

The Group has designed an evaluation system to assess the performance of its employees. This system forms the basis of the Group's determination on employees' salaries, bonuses and promotions. The Group believes the salaries and bonuses that the Group's employees received are competitive with market rates. Under applicable PRC laws and regulations, the Group is subject to social insurance contribution plans, work-related injury insurance and maternity insurance schemes.

The Group place a strong emphasis on providing training to its employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards and work place safety standards. The Group also provides regular on-site and off-site training to help its employees to improve their skills and knowledge. These training courses range from further educational studies to basic production process and skill training to professional development courses for its management personnel.

Profile of Directors and Senior Management

Below are brief profiles of the current directors of the Company ("**Directors**", each a "**Director**") and senior management of the Group.

DIRECTORS

The Board currently consists of nine Directors, comprising of three executive Directors, three non-executive Directors and three independent non-executive Directors. The following table set forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Executive Directors			
Mr. He Xinming	59	Chairman of the Board and executive Director	12 March 2012
Mr. Chen Kunlie	51	Executive Director	12 March 2012
Mr. Bao Jianyong	44	Executive Director	5 November 2013
Non-executive Directors			
Mr. Su Sen	69	Non-executive Director	12 March 2012
Mr. Sun Qian	41	Non-executive Director	12 March 2012
Ms. Sun Limei	52	Non-executive Director	12 March 2012
Independent non-executive Directors			
Mr. Yin Hong	57	Independent non-executive Director	5 November 2013
Ms. Hsieh H., Lily	60	Independent non-executive Director	5 November 2013
Mr. Wu Haibing	42	Independent non-executive Director	5 November 2013

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. He Xinming (何新明), aged 59, is the chairman of the Board and an executive Director. He is also a director of certain subsidiaries of the Group. He is primarily responsible for the Company's strategic planning, overall management and business development. He was appointed to the Board on 12 March 2012. He has over 30 years of experience in the porcelain and ceramics manufacturing industry. Before founding Foshan Shiwan Dongpeng Ceramic Group Co., Ltd. (佛山市石灣東鵬陶瓷集團有限公司) ("**Dongpeng Group**") in 1997, he was head of Foshan Shiwan Dongpeng Ceramic Central Factory (佛山市石灣東平陶瓷總廠) ("**Shiwan Central Factory**"). Mr. He became chairman of the board of directors and general manager of Dongpeng Group in 1997 and has been leading our Group.

Mr. He received a bachelor's degree in machinery and manufacture (long distance courses) from South China University of Technology (華南理工大學) in 1989. He is a senior engineer (高級工程師), and holds office as the vice president of China Building Ceramic & Sanitary Ware Association (中國建築衛生陶瓷協會), The Seventh Foshan Associations of Enterprises and Entrepreneurs and Foshan Chancheng District General Chamber of Commerce (佛山市禪城區總商會). He is also an honorary chairman of Foshan Ceramics Industry Association (佛山市陶瓷行業協會委員會), a council member of Chinese People's Political Consultative Conference in Foshan (佛山市政協) and a deputy to the Third People's Congress of Chancheng district in Foshan (佛山市禪城區第三屆人民代表大會). Mr. He was also voted "Person of the Year" at the seventh Ranking of Top Cutting-Edge Producers in China's Ceramics Industry (第七屆中國陶瓷行業新鋭榜) in 2011 and "Representative Leader in Thirty Years of Reform of China's Construction Materials" by China Building Materials Association (中國建築材料聯合會) in 2009, won award of the year 2014 Guangdong Economic ranking influential man.

Mr. Chen Kunlie (陳昆列), aged 51, is vice president of the Group and an executive Director. He is also a director of certain subsidiaries of the Group. He is primarily responsible for the management of our Group's strategic planning. He was appointed to the Board on 12 March 2012. Joining our Group in 1987, Mr. Chen has more than 20 years of experience in the porcelain and ceramics manufacturing industry. Mr. Chen received a bachelor's degree in ceramics engineering from South China University of Technology in 1987.

Mr. Bao Jianyong (包建永), aged 44, is an executive Director and joint company secretary of the Company. He is also a director of certain subsidiaries of the Group. He is primarily responsible for internal audit. He was appointed to the Board on 5 November 2013. Mr. Bao has more than 15 years of experience in auditing and accounting. He joined Guangdong Dongpeng Ceramics in 1999 as chief financial officer. Prior to that, he worked for Foshan Accounting Firm (佛山會計事務所). Mr. Bao received a bachelor's degree in environmental planning and management from Wuhan University (武漢大學) in 1992, and a master's degree in accounting from Sun Yat-Sen University (中山大學) in 2009.

Profile of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Su Sen (蘇森), aged 69, is a non-executive Director. He is also a director of certain subsidiaries of the Group. He was appointed to the Board on 12 March 2012. Mr. Su has over 30 years of experience in the porcelain and ceramics manufacturing industry. From 1994 to 2006, he was the deputy general manager of the Shiwan Central Factory and Guangdong Dongpeng Ceramics. Before joining our Group, Mr. Su worked for Shiwan Ceramics Craftwork Factory (石灣陶瓷工藝廠) and Shiwan Third Factory of Ceramic Utility Products (石灣日用陶瓷三廠), and was responsible for technology and craftwork of ceramic manufacturing. He started his career as early as 1958.

Mr. Sun Qian (孫謙), aged 41, is a non-executive Director. He was appointed to the Board on 12 March 2012. Mr. Sun is a partner of Sequoia Capital China, where he focuses on consumer and technology related investment. Mr. Sun has been a non-executive director in China Shengmu Organic Milk Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (Stock code: 1432) since March 2014. Mr. Sun was a director of Bona Film Group Limited, a company listed on NASDAQ, from 2007 to 2011 and has become a director of 500.com Limited (principally engaged in online sports lottery services), a company listed on New York Stock Exchange (Stock code: WBAI) since October 2013. Prior to joining Sequoia Capital China in 2006, Mr. Sun worked at General Atlantic from 2003 to 2005, focusing on technology related growth investment in China. He also worked as a management consultant at Monitor Group in Hong Kong from 1997 to 1999. Mr. Sun received a BA degree in applied mathematics from Harvard College in 1997, an MBA from Harvard Business School and a J.D. from Harvard Law School in 2003.

Ms. Sun Limei (孫麗梅), aged 52, is a non-executive Director. She is also a director of certain subsidiaries of the Group. She was appointed to the Board on 12 March 2012. Ms. Sun has more than 10 years of experience in the porcelain and ceramics manufacturing industry. She joined Guangdong Dongpeng Ceramics in 1999 as assistant to the general manager, and served as deputy general manager from 2009 to 2011 and executive vice president from 2011 to 2012. Before joining our Group, Ms. Sun gained significant experience in managing industrial factories while working for Foshan Copper Tube Company (佛山精細銅管公司), Foshan Electricity and Ceramic Factory (佛山電瓷廠), Dalian Magnetic Heads Factory (大連磁頭廠) and Star Light Mold Factory (星光模具廠). She received a bachelor's degree in machinery and manufacture (long distance courses) from South China University of Technology in 1988.

Profile of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yin Hong (尹虹), aged 57, is an independent non-executive Director. He was appointed to the Board on 5 November 2013. Mr. Yin has been in academic research in the fields of material composition and manufacturing of ceramics for over 30 years and holds editorial positions with various academic journals on ceramics. Mr. Yin is an associate professor in inorganic materials with South China University of Technology. He currently serves as deputy secretary general of China Building Ceramic & Sanitary Ware Association (中國建築衛生陶瓷協會), vice chairman of National Technical Committee on Building and Sanitary Ceramics of Standardization Administration of China (全國建築衛生陶瓷標準化技術委員會), executive chief editor of China Ceramics magazine (中國陶瓷) and deputy director of the editorial boards of Ceramics magazine (陶瓷) and Foshan Ceramics magazine (佛山陶瓷). Mr. Yin served as economics advisor to the governments of Jiajiang county, Sichuan province (四川省夾江縣) and Chaling County, Hunan province (湖南省茶陵縣), as well as a business promotion advisor for Dangyang city, Hubei province (湖北省當陽市). Mr. Yin graduated from Jiangxi Jingdezhen Ceramic Institute (江西景德鎮陶瓷學院) majoring in ceramic engineering in 1979, and received a master's degree and a Ph. D. in inorganic materials with South China University of Technology in 1983 and 1992, respectively. He has been in the academia since 1980s.

Ms. Hsieh H., Lily (謝慧雲), aged 60, is an independent non-executive Director. She was appointed to the Board on 5 November 2013. She has over 30 years of experience in the auditing and accounting in various industries, including food retailing, manufacturing and processing, public utilities and airlines. Ms. Hsieh joined YUM! China in 1996 and was the chief financial officer of YUM! China from 2000 to 2012. Before joining YUM! China, she worked with Kraft Foods (Asia Pacific) Ltd., Pillsbury Canada, and China Airlines. Ms. Hsieh serves as an independent non-executive director of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (Stock code: 520), a company listed on the Main Board of the Stock Exchange, since November 2014 and has served as a non-executive director of Little Sheep Group Limited (Stock code: 968) from November 2009 until it was delisted from the main board of the Stock Exchange in February 2012. Ms. Hsieh received an MBA from University of Toronto in 1980 and the title of Certified Management Accountant (CMA) in 1985.

Mr. Wu Haibing (吳海兵), aged 42, is an independent non-executive Director. He was appointed to the Board on 5 November 2013. Mr. Wu has over 10 years of experience in the financial field, and is currently the chief financial officer of Plateno Hotels Group (formerly "7 Days Group Holdings Limited"), which was privatized and delisted from the New York Stock Exchange on 18 July 2013. Prior to that, Mr. Wu worked for PricewaterhouseCoopers in the United States and later in China from 2000 to 2007, and last held the position of senior manager, responsible for improvement of internal controls, risk management, corporate governance and audit support. Mr. Wu received a bachelor's degree from Shanghai Jiao Tong University (上海交通大學) and an MBA from Michigan State University. Mr. Wu has been an independent director of Country Style Cooking Restaurant Chain Co., Ltd. (NYSE: CCSC), a company listed on the New York Stock Exchange since September 2011.

Profile of Directors and Senior Management

SENIOR MANAGEMENT

The following table presents certain information concerning the senior management personnel of the Group

Name	Age	Year joined	Position
Mr. Cai Chuyang	51	2002	President
Mr. Chen Kunlie	51	1987	Vice President
Mr. Liang Huicai	40	2001	Vice President
Mr. Jin Guoting	48	2009	Vice President
Mr. Shao Yu	39	2013	Vice President and Chief Financial Officer
Mr. Shi Yufeng	40	1996	Vice President
Ms. Lin Hong	44	2008	Vice President

Mr. Cai Chuyang (蔡初陽), aged 51, is the president of our Group. He is responsible for our Group's overall business management. He has been serving as our Group's president since July 2012. Mr. Cai has served as various positions, including deputy general manager of Guangdong Dongpeng Holdings and general manager of Dongpeng Sanitary Ware since joining our Group in December 2002. Prior to that, Mr. Cai was the deputy chief of Shiwan District Government of Foshan, Guangdong province (佛山市石灣區政府副區長). Mr. Cai graduated from Foshan Veterinary School (佛山獸醫專科學校) with a junior college degree in farm veterinary.

Mr. Chen Kunlie (陳昆列), aged 51, is a vice president of our Group. His biographical details are set out in the section headed "Profile of Directors and Senior Management – Executive Directors" in this annual report.

Mr. Liang Huicai (梁慧才), aged 40, is a vice president of our Group. He is primarily responsible for our Group's sales and marketing. Mr. Liang has more than ten years of experience in the sales and marketing of ceramics product. He has held various management positions with Guangdong Dongpeng Ceramics, as deputy general manager of the sales department from 2009 to 2012 and as head of the marketing and sales center for Southern regions from 2008 to 2009. He joined our Group as a salesman for Guangdong Dongpeng Ceramics in 2001. Mr. Liang received a bachelor's degree in inorganic non-metal materials from South China University of Technology in 1997.

Mr. Jin Guoting (金國庭), aged 48, is a vice president of our Group. He is primarily responsible for manufacturing, research and development as well as quality control. He has more than 20 years of experience in ceramics manufacturing. Mr. Jin has held several management positions with our Group, as vice president from 2011 to 2012 and as general manager of the manufacture center from February to May in 2011 for Guangdong Dongpeng Ceramics, and as general manager from 2009 to 2011 for Foshan Hua Sheng Chang Ceramics Co., Ltd. Prior to that, Mr. Jin worked for Guangdong Dongpeng Ceramics from May to November in 2009, and held the position as assistant to general manager as well as manager of technology department with Guangdong Xin Run Cheng Ceramics Co., Ltd. (廣東新潤成陶瓷有限公司) from 2001 to 2009. He also worked for Shiwan Central Factory in the early 1990s. Mr. Jin received a master's degree in metalworking and resources from Central South University (中南工業大學) in 1992.

Profile of Directors and Senior Management

Mr. Shao Yu (邵鈺), aged 39, is a vice president and chief financial officer of our Group. He is primarily responsible for financial and information technology matters. He was appointed the Company's vice president on 8 April 2013. Mr. Shao has over 15 years of experience in financing and accounting fields. Before joining our Group, Mr. Shao was a director, company secretary and assistant general manager of Jiangsu Riying Electronics Co., Ltd. (江蘇日盈電子股份有限公司) from 2011 to 2013. He worked for Procter & Gamble from 2009 to 2011 and was financial controller for the Business Unit of Salon Professional, greater China region. He was an investment banking associate with the New York office of Jefferies & Company in 2008. He was a corporate finance manager at the headquarters of Solectron Corporation in California from 2000 to 2006, and a finance manager of Solectron Technology (Suzhou) Co., Ltd. (旭電(蘇州)科技有限公司) from 1997 to 2000. Mr. Shao received an MBA from the University of Chicago, Booth School of Business in 2008 and a bachelor's degree in finance from Soochow University in 1997.

Mr. Shi Yufeng (施宇峰), aged 40, is a vice president of our Group. He is primarily responsible for production planning, logistics and sales in overseas market. He has over 15 years of experience in ceramics manufacturing. Since joining our Group in 1996, Mr. Shi served as assistant to deputy executive vice president of Guangdong Dongpeng Holdings from February to December in 2012, general manager of the Shandong branch company of Guangdong Dongpeng Ceramics from 2011 to 2012 and general manager of Lixian Xinpeng Ceramics Co., Ltd. ("Lixian Xinpeng") from 2009 to 2011, as well as worked for the equipment department, the first workshop and the fifth workshop of Foshan Shiwan Huatai Ceramics Co., Ltd ("Shiwan Huatai") and the ninth workshop of Shiwan Decorative Tile Factory. Mr. Shi received a bachelor's degree in industrial automation from Nanjing University of Science & Technology (南京理工大學) in 1996.

Ms. Lin Hong (林紅), aged 44, is a vice president of our Group. She is primarily responsible for the management of our administrative and human resources functions. Since joining our Group in 2008, Ms. Lin served as lead executive assistant of the general manager's office from 2008 to 2011. Before joining our Group, Ms. Lin was head of business affairs with the Television Station of Foshan city, Guangdong province, and an editor with the Television Station of Meizhou city, Guangdong province and a program host with the Television Station of Xingning city, Guangdong province. Ms. Lin received a college diploma in political education from Jiaying Teachers College (嘉慶師範專科學校) in 1990.

Corporate Governance Report

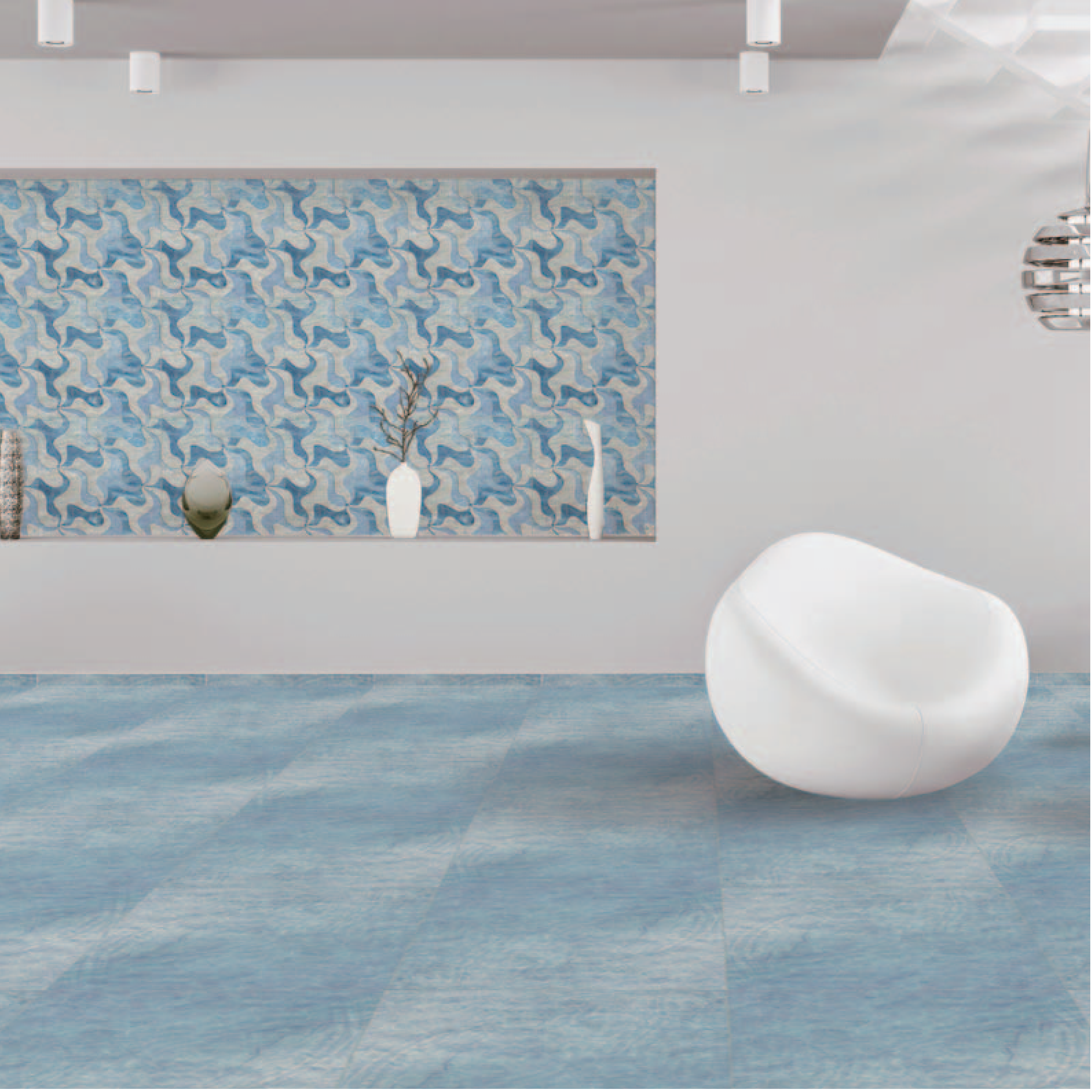
Beauty of Water

By making a general observation on the vicissitudes of water and the works of water, it can be seen that all express the aesthetic value of natural substances. Ceramic tile designers of Dongpeng focus on the vicissitudes of water and extend the utmost performance of water and arts from the artistic form of water under different states, the Beauty of Water series.

FG805758
800X800mm

Strong abrasive resistance 强耐磨
Anti-acid and alkali 耐酸碱
High rigidity 高硬度
No radiation 无辐射

The product design is inspired by snowflakes in winter. It's unique crystal structure is clearly delineated with structural lines of icy crystal in light elegant shade. The overlapping crisscross pattern is decorated with flakes of snow, which is light and pure.



FG805759
800X800mm

Strong abrasive resistance 强耐磨 | Anti-acid and alkali 耐酸碱 | High rigidity 高硬度 | No radiation 无辐射

The product design is inspired by water in lake, with fresh and refined lines, clear shades of colour and smooth line flows. The unique design of lines has been added with a beige tone, which makes the product a more trendy feeling as a whole.




Corporate Governance Report

Maintaining high standards of business ethics and corporate governance has always been one of the Group's key focuses. The Board and the management of the Company are committed to conducting the Group's businesses in a transparent and responsible manner, and they believe good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, sustainable business growth and enhancing Shareholders' value in the long term.

(A) CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**Code**") as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) (the "**Listing Rules**") as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company, throughout the year ended 31 December 2014, has adopted, applied and complied with the code provisions contained in the Code.

The Board will continue to review and monitor the practices of the Company with an aim to achieve, maintain and implement a high standard of corporate governance practices.

(B) DIRECTORS' AND SENIOR MANAGEMENT'S SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all the Directors confirm that they have complied with the Model Code throughout the year ended 31 December 2014. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year.

(C) THE BOARD OF DIRECTORS

Board Members

As at 31 December 2014, the Board consisted of 9 Directors: including three executive Directors, three non-executive Directors and three independent non-executive Directors. Members of the Board include:

Executive Directors
Mr. He Xinming *(Chairman of the Board)*
Mr. Chen Kunlie
Mr. Bao Jianyong

Non-executive Directors
Mr. Su Sen
Mr. Sun Qian
Ms. Sun Limei

Independent Non-executive Directors
Mr. Yin Hong
Ms. Hsieh H., Lily
Mr. Wu Haibing

Save as disclosed in the section headed "Profile of Directors and Senior Management" of this annual report, the Directors and senior management have no other financial, business, family or other material/relevant relationships with one another.

During the financial year ended 31 December 2014, the Company has at all times complied with the requirement of Rule 3.10A of the Listing Rules, which requires an issuer's board of directors to have at least one third of its members being independent non-executive Directors. In addition, the Company has duly complied with Rule 3.10(2) of the Listing Rules, which requires at least one of the independent non-executive directors to have appropriate professional qualifications or accounting or related financial management expertise. Mr. Wu Haibing, chairman of the audit committee of the Company (the "**Audit Committee**") and being one of the independent non-executive Directors, possesses over 10 years of experience in the financial field. Together with another two independent non-executive Directors, Mr. Yin Hong and Ms. Hsieh H., Lily, all of whom have wide exposure and experience in the fields of finance and business management, provide the Group with diversified expertise and experience. Their views and participation in Board and Board committee meetings bring independent judgment and advice on issues relating to the Group's strategies, performance, conflicts of interest, management process and to ensure that the interests of all Shareholders are taken into account.

The Board considers that the balance between executive and non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of Shareholders and the Group as a whole. The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership. The Board has separate and independent access to the senior management and the joint company secretaries at all times.

Directors must dedicate sufficient time and attention to the Group's affairs. To this end, the Company requests all Directors to disclose to the Company annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

The Company has received from the independent non-executive Directors their respective confirmation of independence pursuant to Rule 3.13 of the Listing Rule and the Board considers that all independent non-executive Directors are independent. The Board believes that the present structure of the Board can ensure the independence and objectivity of the Board and provide an effective system of checks and balance to safeguard the interests of the Shareholders and the Company.

All Directors, including independent non-executive Directors, are clearly identified as such in all corporate communications containing the names of the Directors. A list of roles and functions of Directors is published on the websites of the Company and the Stock Exchange, and the Company will keep updating the list whenever necessary. The Company has arranged appropriate directors and officer's liability insurance cover in respect of legal action against the Directors.

Appointment, Re-election and Removal of Directors

Each of the Directors has entered into a service contract or a letter of appointment with the Company for a specific term. The initial term of office for each of the Directors is a term of three years from their respective appointment date and is subject to retirement by rotation at an annual general meeting (the "**AGM**") at least once every three years.

According to the articles of association of the Company (the "**Articles**"), one-third of the Directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM provided that every director shall be subject to retirement by rotation at least once every three years. The retiring Director shall be eligible for re-election at the relevant AGM. In addition, the Articles provide that any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his/her appointment, whereas any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM. The Director appointed by the Board as aforesaid shall be eligible for re-election at the relevant general meeting.

Shareholders may, by ordinary resolution passed at general meeting convened and held in accordance with the Articles, remove a Director at any time before the expiration of his/her period of office notwithstanding anything to the contrary in the Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages for any breach of such agreement).

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Directors' Continuing Professional Development

Directors must keep abreast of their collective responsibilities. All Board members received an induction package covering the regulatory obligations of a director of a listed company. The Company will also provide or arrange briefings and trainings to develop and refresh the Directors' knowledge and skills. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory and statutory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

Directors and senior management members have received training regarding a wide spectrum of areas relating to directors' duties and corporate governance in 2014. The Company believes that such training would keep them abreast of relevant legal requirements and good corporate governance practices.

In particular, on 16 October 2014, all the Directors (including senior management members) attended training conducted by the Hong Kong legal advisors to the Company, which covered inter alia the following topics under the Listing Rules:

- disclosure requirements;
- related party transactions;
- inside information disclosure requirements; and
- merger and acquisition.

Internally, the Company's senior management, including our executive Directors, will implement a training plan and conduct training sessions for our key staff members on a continuing basis.

The Directors are required to submit to the Company details of training sessions they received in each financial year for the Company's maintenance of proper training records of the Directors. According to the training records currently maintained by the Company, the training received by each of the directors in 2014 is summarized as follows:

	Type of training Training on regulatory development and corporate governance related topics under the Listing Rules (16 October 2014)
Mr. He Xinming	√
Mr. Chen Kunlie	√
Mr. Bao Jianyong	√
Mr. Su Sen	√
Mr. Sun Qian	√
Ms. Sun Limei	√
Mr. Yin Hong	√
Ms. Hsieh H., Lily	√
Mr. Wu Haibing	√

Board and Board Committee Meetings

Under code provision A.1.1 of the Code, the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals and under code provision A.2.7 of the Code, the chairman of the Board should at least annually hold meeting with the non-executive directors (including independent non-executive directors) without the executive directors present.

During the financial year ended 31 December 2014, six Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and polices of the Company. The Director's attendance at the above Board meeting is set out in the section headed "Attendance at Board and Board Committee Meetings" below.

The chairman of the Board has held one meeting with the non-executive Directors (including the independent non-executive Directors) without the executive Directors present during this year.

During the financial year ended 31 December 2014, the Board considers that all meetings have been legally and properly convened in compliance with the relevant laws and regulations (including the Listing Rules and the Articles). With the assistance of the joint company secretaries, the chairman of the Board takes the lead to ensure that Board meetings and Board committee meetings are convened in accordance with the requirements set out in the Articles, the terms of reference of the respective Board committees and the Listing Rules.

A tentative schedule for regular Board meetings for 2015 will be provided to the Directors. At least 14 days' notice for all regular Board meetings will be given to all Directors and all Directors must be given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will be given. Relevant agenda and accompanying Board papers will be sent to all Directors at least three days in advance of every regular Board meeting.

All matters and decisions reached, including any concerns raised by Directors or dissenting views expressed, will be recorded in minutes of Board meetings or other Board committees meetings in sufficient details. Draft and final versions of minutes of Board/Board committee meetings will be sent to all Directors/Board committee members for comment and records respectively, within reasonable time after the respective meetings are held. In addition, minutes of all Board meeting or Board committee meetings are available for inspection at any reasonable time on reasonable notice by any Director.

Upon making reasonable request to the Company, Board members have the right to seek independent professional advice or services at the Company's expense to assist them to perform their duties to the Company.

Should a potential conflict of interest involving substantial Shareholder(s) or Director(s) arise and the Board considers the matter to be material, the Company will hold a physical Board meeting to discuss and consider the matter, instead of passing a written resolution. Independent non-executive Directors who, and whose associates, have no material interest in the transaction should be required to be present at that Board meeting.

Attendance at Board and Board Committee Meetings

Attendance of each Director at all the Board meetings and Board committee meetings during the financial year ended 31 December 2014 is as follows. One general meeting has been held by the Company on 23 June 2014.

Name of director	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Compliance Committee meeting	General meeting
Executive Directors						
Mr. He Xinming	6/6	N/A	1/1	1/1	N/A	1/1
Mr. Chen Kunlie	5/6	N/A	N/A	N/A	N/A	1/1
Mr. Bao Jianyong	6/6	N/A	N/A	N/A	3/3	1/1
Non-executive Directors						
Mr. Su Sen	5/6	2/2	N/A	N/A	3/3	1/1
Mr. Sun Qian	6/6	N/A	N/A	N/A	N/A	1/1
Ms. Sun Limei	6/6	N/A	N/A	N/A	N/A	1/1
Independent non-executive Directors						
Mr. Yin Hong	6/6	N/A	1/1	1/1	N/A	1/1
Ms. Hsieh H., Lily	5/6	2/2	N/A	1/1	N/A	1/1
Mr. Wu Haibing	5/6	2/2	1/1	N/A	3/3	1/1

(D) CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the Code provides that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

To ensure a balance of power and authority, the Company has appointed Mr. He Xingming as the chairman of the Board and Mr. Cai Chuyang as the president of the Group. Mr. He is an executive Director, and Mr. Cai Chuyang is a senior management of the Company.

Mr. He, as the chairman of the Board, provides leadership for the Board and is responsible for the effective running of the Board. He works with the senior management to ensure that all key and appropriate issues are discussed timely, and that the Directors receive, in a timely manner, adequate information which is accurate, clear, complete and reliable. Mr. He is also responsible for ensuring that good corporate governance practices and procedures are established, encouraging all Directors to make full and active contribution to the Board's affairs, taking the lead to ensure that the Board acts in the interests of the Company and its Shareholders, and ensuring that appropriate steps are taken to provide effective communication with the Shareholders.

A culture of openness and constructive relations among Directors are promoted within the Board, facilitating effective contribution of non-executive Directors ensuring constructive relations between executive and non-executive Directors. The president of the Group is responsible for the management of the day-to-day operations and the implementation of the approved strategies of the Group.

(E) BOARD COMMITTEES

Functions and Duties of the Board

The Board supervises the management of business and affairs of the Company. The primary duties of the Board include:

(a) overall management of the business and strategic development;

(b) deciding business plans and investment plans;

(c) monitoring the ongoing operation of the Company and to ensure that it is managed in the best interests of the Shareholders as a whole while taking into account the interests of other stakeholders;

(d) convening general meetings and reporting to the Shareholders; and

(e) exercising other powers, functions and duties conferred by Shareholders in general meetings.

The Board delegates the authority and responsibility of daily operations, business strategies and day to day management of the Company to the president of the Group and the senior management.

The Board is also responsible for performing the corporate governance duties as set out in code provision D.3.1 of the Code including:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct applicable to Directors, senior management and employees of the Company; and

(e) to review the Company's compliance with the Code and disclosure in this corporate governance report.

Delegation by the Board

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to various Board committees, including Audit Committee, remuneration committee (the "**Remuneration Committee**"), nomination committee (the "**Nomination Committee**") and compliance committee (the "**Compliance Committee**"), and the senior management. All Board committees perform their distinct roles in accordance with their respective terms of reference which are available to public on the websites of the Company and the Stock Exchange.

The senior management, under the leadership of the president of the Group, is delegated by the Board with the authority and responsibility for the daily operations and management of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions to be entered into by the Company.

Audit Committee

The Company established an Audit Committee on 5 November 2013 with written terms of reference in compliance with rule 3.21 and 3.22 of the Listing Rules and code provision C.3.3 of the Code. The Audit Committee has three members, namely Mr. Wu Haibing, Ms. Hsieh H., Lily and Mr. Su Sen. Mr. Wu Haibing, the Company's independent non-executive Director, has been appointed as the chairman of the Audit Committee, and he possesses the appropriate professional qualifications required under the Listing Rules.

The primary responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by the Board. The Audit Committee has access to independent professional advice, if required, and is provided with sufficient resources to perform its duties.

During the financial year ended 31 December 2014, the Audit Committee has held two meetings, during which the following works were performed:

- Discussion with the external auditors about the scope of work and fee in respect of their audit work for the year ended 31 December 2014.
- Review the Group's financial results for the year ended 31 December 2014, significant issues on financial reporting and internal control and appointment of external auditors.

The attendance of the Audit Committee members at the above meeting is set out in the section headed "Attendance at Board and Board Committee Meetings" above.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

Remuneration Committee

The Company established the Remuneration Committee on 5 November 2013 with written terms of reference in compliance with Rule 3.25 and 3.26 of the Listing Rules and code provision B.1.2 of the Code. The Remuneration Committee has three members, namely Ms. Hsieh H., Lily, Mr. Yin Hong and Mr. He Xinming. Ms. Hsieh H., Lily, the Company's independent non-executive Director, has been appointed as the chairman of the Remuneration Committee. The Remuneration Committee has access to independent professional advice, if required, and is provided with sufficient resources to perform its duties.

The primary duties of the Remuneration Committee are to review, determine and make recommendations to the Board on the policy and structure of the remuneration (including bonuses and other compensation) payable to the Company's Directors and senior management and make recommendations on employee benefit arrangements.

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matter.

During the financial year ended 31 December 2014, the Remuneration Committee has held one meeting. The attendance of the Remuneration Committee members is set out in the section headed "Attendance at Board and Board Committee Meetings" above.

Pursuant to code provision B.1.5 of the Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2014 is set out below:

Remuneration band (RMB)	**Number of individual**
3,000,001 – 4,500,000	5
4,500,001 – 5,500,000	1
5,500,001 – 6,500,000	1
	7

Details of the remuneration of each Director for the year ended 31 December 2014 are set out in Note 13 to the financial statements of this annual report.

Nomination Committee

The Company established a Nomination Committee on 5 November 2013 with written terms of reference in compliance with code provision A.5.1 and A.5.2 of the Code. The Nomination Committee consists of three members, namely Mr. He Xinming, Mr. Yin Hong and Mr. Wu Haibing. Mr. He Xinming, the Company's executive Director and chairman of the Board, has been appointed as the chairman of the Nomination Committee. The Nomination Committee has access to independent professional advice, if required, and is provided with sufficient resources to perform its duties.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board annually and make recommendations on any proposed changes to the Board compositions to complement the Company's corporate strategy. The Nomination Committee is also responsible for indentifying suitably qualified individuals and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning of Directors. Furthermore, it also assesses the independence of the independent non-executive Directors.

During the financial year ended 31 December 2014, the Nomination Committee has held one meeting to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting. The attendance of the Nomination Committee members is set out in the section headed "Attendance at Board and Board Committee Meetings" above.

The Board adopted the board diversity policy (the "**Board Diversity Policy**") on 27 March 2014 setting out the approach to diversity on the Board. It is believed that a truly diversed Board will include and make good use of differences in the skills, regional and industrial experience, background, race, gender and other qualities of members of the Board. These differences will be taken into account in determining the optimum composition of the Board. The Board Diversity Policy shall be reviewed by the Nomination Committee annually, as appropriate, to ensure its effectiveness.

Compliance Committee

The Company established a Compliance Committee on 5 November 2013. The Compliance Committee consists of three members, namely Mr. Bao Jianyong, Mr. Wu Haibing and Mr. Su Sen. Mr. Bao Jianyong, the Company's executive Director and joint company secretary, has been appointed as the chairman of the Compliance Committee. The primary duties of the Compliance Committee are to plan for the Company's legal and compliance matters, to oversee legal and compliance training, to observe and monitor important legal and compliance documents and to correct inadequacies in compliance.

During the financial year ended 31 December 2014, the Compliance Committee has held three meetings (despite of 4 meetings as stated in the Terms of Reference). The attendance of the Compliance Committee is set out in the section headed "Attendance at Board and Board Committee Meetings" above.

(F) COMPLIANCE ADVISOR

The Company has appointed Quam Capital Limited as its compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise the Company under the following circumstances:

- the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where the Company proposes to use the proceeds of the IPO in a manner different from that detailed in the supplemental prospectus issued by the Company on 28 November 2013 (the "**Supplemental Prospectus**") or where the Company's business activities, developments or results deviate from any forecast, estimate, or other information as set out in the Supplemental Prospectus; and
- where the Stock Exchange makes an inquiry of the Company under Rule 13.10 of the Listing Rules.

The term of the appointment has commenced on the Listing Date and will end on the date on which the Company distributes the annual report in respect of the financial results for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules.

(G) AUDITORS' REMUNERATION

For the year ended 31 December 2014, the remuneration paid or payable to Deloitte Touche Tohmatsu and other auditors in respect of audit and non-audit services provided is set out below:

Services Rendered	**Remuneration Paid/Payable (RMB'000)**
Audit service	2,330
Non-audit service	177
Total	2,507

The Audit Committee has expressed its views to the Board that the level of fees paid/payable to the Company's external auditor for annual audit and non-audit services is reasonable. There has been no major disagreement between the auditors and the management of the Company during the financial year ended 31 December 2014.

The Audit Committee is responsible to make recommendation to the Board as to the appointment, reappointment and removal of the external auditors. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of Deloitte Touche Tohmatsu as the Company's external auditor for the financial year ending 31 December 2015 which is subject to the approval by the Shareholders at the forthcoming 2015 AGM.

(H) DIRECTORS' RESPONSIBILIITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's accounts and other financial disclosures required under the Listing Rules, meanwhile, the senior management should provide relevant and sufficient information and explanation to the Board to enable it to make informed assessment of the financial and other decisions.

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.

The statement of the independent auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2014 is set out in the "Independent Auditors' Report" contained in this annual report.

(I) INTERNAL CONTROL

The Board is responsible for maintaining effective internal controls and conducting regular review on the effectiveness of the internal control system of the Company. Procedures have been designed for safeguarding assets against unauthorized use or disposition, maintaining of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable laws, rules and regulations. However, the system can only provide reasonable but not absolute assurance against misstatements or losses.

The Board is also responsible for presenting a balanced and clear assessment of the Group's performance and prospects. Management of the Company provides all relevant information to the Board, giving its members sufficient explanation and information that it needs to discharge its responsibilities.

During the year under review, The Audit Committee and the Board conducted a review of the effectiveness of the internal control system of the Company, respectively including the adequacy of resources, staff qualifications and experiences, training programs and budget of the Company's accounting and financial reporting function. The Board considers that there are no significant defects in the Company's internal control systems in terms of completeness, reasonableness and effectiveness.

(J) JOINT COMPANY SECRETARIES

The Company has appointed Mr. Bao Jianyong ("**Mr. Bao**") and Ms. Yuen Wing Yan, Winnie ("**Ms. Yuen**") as its joint company secretaries. Ms. Yuen has confirmed that for the year under review, she has taken no less than 20 hours of relevant professional training.

Mr. Bao is an employee of the Company. He is also an executive Director. Mr. Bao has day-to-day knowledge of the Company's affairs. He reports to the chairman of the Board and the Board. Both joint company secretaries are responsible for providing advice to the Board on corporate governance matters.

Ms. Yuen of Tricor Services Limited, an external service provider, has been engaged by the Company as its joint company secretary. Its primary contact person at the Company is Mr. Bao, the executive Director and joint company secretary of the Company.

(K) SHAREHOLDERS' RIGHT

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at Shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company (www.dongpeng.net) and Stock Exchange after each Shareholders' meeting. The Articles allow a Shareholder entitled to attend and vote at a general meeting to appoint a proxy, who need not be a Shareholder, to attend the meeting and vote thereat on his/her/its behalf.

Pursuant to the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the 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.

There is no provision allowing Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

With respect to the Shareholders' right in proposing persons for election as Directors, please refer to the procedures available on the website of the Company.

Shareholders and potential investors are welcomed to communicate with the Company by email: enquiry@dongpeng.net. Shareholders may also put forward their written enquiries to the Board at No. 8 Jiangwan Third Road, Chancheng District, Foshan, Guangdong, PRC (Attention: the Board of Directors).

(L) INVESTOR RELATIONS

The Company believes that effective and proper investor relations play a vital role in creating Shareholders' value, enhancing the corporate transparency as well as establishing market confidence. The Company discloses information in compliance with the Listing Rules, and publishes periodic reports and announcements to the public in accordance with the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate and complete, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions. Updated key information and business development of the Group are also available on the Company's website to enable Shareholders and investors to have timely access to information about the Group.

The Company also endeavours to maintain an on-going dialogue with Shareholders and in particular, through general meetings which provides a forum for Shareholders to raise comments and exchange views with the Board. At the AGM, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their queries.

The Company will continue to take measures to ensure effective Shareholders' communication and transparency.

There has been no change in the Articles during the year ended 31 December 2014. An up to date version of the Articles is also available on the websites of the Stock Exchange and the Company.

Directors' Report

Beauty of Humanity

Despite changes in the world, the replacement of the times and the development of the society, all these changes cannot change the precipitation of humanity. Dongpeng sets foot on the road to humanities and arts seeks the most representative ornamentations and patterns from four selected countries and communicates cultural heritage that belongs to the world.

BRAZIL 巴西

ISLAM 中东

FG805716
800X800mm

Strong abrasive resistance 强耐磨 | Anti-acid and alkali 耐酸碱 | High rigidity 高硬度 | No radiation 无辐射

The flowery tile uses geometrical diamond shapes as the main framework, filled with Russian patterns in different styles and colours. The bold colour applications are full of creativity. When applied to spatial usage, it reveals a different ethnic characteristic, and gives an experience of the colourful Russian sentiment.

FG805705
800X800mm

Strong abrasive resistance 强耐磨

Anti-acid and alkali 耐酸碱

High rigidity 高硬度

No radiation 无辐射

The overlapping pattern of this product is inspired by the parrot feathers loved by Brazilians. The elegant curves and smooth line flows, tainted in white with an emerald tone, just like a parrot flies across the sky above the equatorial rain forest, which carries away one's heart. When used on large area in the living room, restaurants and high-end clubhouse, it provides a fresh and natural spatial feeling.

Directors' Report

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 12 March 2012 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company, and its subsidiaries established in the PRC are primarily engaged in the designing, developing, producing, marketing and sale of ceramic tile products and bathroom products under the "Dongpeng" brand.

The activities and particulars of the Company's subsidiaries are shown under Note 41 to the financial statements of this annual report. An analysis of the Group's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and Note 7 to the financial statements of this annual report.

RESULTS AND DIVIDEND

The consolidated results of the Group for the year ended 31 December 2014 are set out on page 98 of this annual report.

The Board is pleased to recommend the payment of a Proposed Final Dividend for the year 2014. The final dividend of HK$0.17 per ordinary share is calculated based on 30% payout ratio of the net profit attributable to owners of the Company from 1 January 2014 to 31 December 2014, which is RMB563.7 million (equivalent to HK$714.6 million). Based on the numbers of issued Shares as at 31 December 2014, this represents a total distribution of approximately HK$214.0 million (equivalent to RMB168.8 million). Details of dividends declared are set out in Note 15 to the financial statements of this annual report.

Subject to the approval of the Proposed Final Dividend by the Shareholders at the AGM to be held on 23 June 2015 ("**2015 AGM**"), the Proposed Final Dividend will be payable on or before Tuesday, 21 July 2015 to the shareholders whose names are listed on the register of members of the Company on 6 July 2015.

CLOSURE OF THE REGISTER OF MEMBERS

(A) For determining the entitlement to attend and vote at the 2015 AGM

The register of members of the Company will be closed from Friday, 19 June 2015 to Tuesday, 23 June 2015 both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2015 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 18 June 2015.

(B) For determining the entitlement to the Proposed Final Dividend

The Proposed Final Dividend is subject to the approval of the Shareholders of the Company at the 2015 AGM. The record date for entitlement to the Proposed Final Dividend is Monday, 6 July 2015. For determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from Thursday, 2 July 2015 to Monday, 6 July 2015, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the Proposed Final Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 30 June 2015.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 5 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 17 to the financial statements of this annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 30 to the financial statements of this annual report.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year are set out in Note 43 to the financial statements of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's distributable reserves were RMB810.9 million.

BANKING FACILITIES AND OTHER BORROWINGS

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 27 to the financial statements of this annual report.

The Directors are not aware of any circumstances which would give rise to disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December 2014.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the law of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

DIRECTORS

The Directors as at the date of this annual report are:

Executive Directors

Mr. He Xinming (何新明) *(Chairman of the Board)*
Mr. Chen Kunlie (陳昆列)
Mr. Bao Jianyong (包建永) *(Joint company secretary)*

Non-executive Directors

Mr. Su Sen (蘇森)
Mr. Sun Qian (孫謙)
Ms. Sun Limei (孫麗梅)

Independent Non-executive Directors

Mr. Yin Hong (尹虹)
Ms. Hsieh H., Lily (謝慧雲)
Mr. Wu Haibing (吳海兵)

Pursuant to the provisions in the Articles and the wishes of the Directors, Mr. He Xinming, Mr. Su Sen and Ms. Sun Limei will retire at the forthcoming 2015 AGM. All of the above retiring Directors, being eligible, will offer themselves for re-election at the 2015 AGM.

The Company's circular to be despatched to Shareholders will contain detailed information of the Directors standing for re-election.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out in the section headed "Profile of Directors and Senior Management" in this annual report.

DIRECTORS' SERVICE CONTRACTS

The executive Directors have entered into service contracts with the Company for a term from 5 November 2013 to the date of holdings the Company's 2016 AGM. The Company further issued a letter of appointment to each of the non-executive Directors and independent non-executive Directors on 5 November 2013 for a term of three years from their respective appointment dates. The term of office of the Directors is subject to termination, and termination notice can be served by either the Director(s) or the Company. The appointment may be renewed in accordance to the Articles and the applicable rules.

Save as disclosed above, none of the Directors (including those Directors proposed for election or re-election at the forthcoming 2015 AGM) has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or its subsidiaries, as applicable, within one year without payment of compensation, other than statutory compensation.

CONTRACT WITH DIRECTORS AND CONTROLLING SHAREHODERS

No contract of significance (as defined under Notes 15.2 and 15.3 of Appendix 16 to the Listing Rules) has been entered into between the Company or any of its subsidiaries and a controlling Shareholder or any of its subsidiaries during the year ended 31 December 2014.

No contract of significance (as defined under Notes 15.2 and 15.3 of Appendix 16 to the Listing Rules) which the Company or any of its subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The remuneration (including fees, salaries and other benefits, retirement benefit scheme) and share-based compensation paid to the Company's Directors in aggregate for the years ended 31 December 2013 and 2014 were approximately RMB6,922,000 and RMB15,015,000, respectively.

The remuneration (including salaries and other benefits, retirement benefit scheme) and share-based incentive paid to our Group's five highest paid individuals (excluding the directors listed above) in aggregate for the years ended 31 December 2013 and 2014 were approximately RMB5,119,000 and RMB11,516,000, respectively.

For the year ended 31 December 2014, no emoluments were paid by our Group to any director of the Company or any of the five highest paid individuals as an inducement to join or upon joining our Group or as compensation for loss of office. None of the directors has waived any emoluments for the year ended 31 December 2014.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 13 and Note 14 to the financial statements of this annual report.

The Company has also adopted the Pre-IPO Share Option Scheme and the Share Option Scheme as incentive for Directors and eligible employees. Details of the said schemes are set out under the section headed "Pre-IPO Share Option Scheme and Share Option Scheme" in this annual report and in Note 31 to the financial statements of this annual report.

Except as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2014, by our Group to or on behalf of any of the Directors.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors nor the controlling Shareholders of the Company or their respective associates (as defined in the Listing Rules) had any interest in a business that competed or might compete or was likely to compete, either directly or indirectly, with the business of the Group.

On 5 November 2013, Mr. He Xinming, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin (collectively referred to as the "**Covenanters**") and the Company (for itself and as trustee for each of its subsidiaries) entered into a deed of non-competition (the "**Non-competition Deed**"), pursuant to which each of the covenanters has irrevocably, jointly and severally given certain non-competition undertakings to the Company (for itself and as trustee for each of its subsidiaries). Details of the Non-Competition Deed are set out in the section headed "Relationship with Our Controlling Shareholders – Non-competition Undertaking" of the Prospectus.

The covenanters declared that they have complied with the Non-competition Deed. The independent non-executive Directors have conducted such review for the year ended 31 December 2014 and also reviewed the relevant undertakings and have not noticed any non-compliance incident.

MANAGEMENT CONTRACTS

Other than the Directors' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during 2014.

LOAN OR GUARANTEE FOR LOAN GRANTED TO THE DIRECTORS

During the year, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the Directors, senior management, its ultimate controlling Shareholders or their respective connected persons.

PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

The Company conditionally approved and adopted the pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") pursuant to the resolutions of the Shareholders passed on 31 October 2013. The options have been conditionally granted based on the performance of the grantees who have made important contributions or are important to the long term growth and profitability of the Group. The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate employees and Directors, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees and Directors to participate in the growth and profitability of the Group.

A total of 14 grantees, including three executive Directors, and five members of the senior management (excluding Directors) of the Group have been conditionally granted options under the Pre-IPO Share Option Scheme.

As at the date of this annual report, options to subscribe to an aggregate of 47,500,000 Shares representing approximately 3.67% of the enlarged issued share capital of the Company immediately upon completion of the IPO (assuming that all options granted under the Pre-IPO Share Option Scheme are exercised) have been conditionally granted by the Company under the Pre-IPO Share Option Scheme. No further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. The options granted have a 10-year exercise period.

The subscription price per Share of the options granted under the Pre-IPO Share Option Scheme shall be HK$0.01, and it is exercisable subject to a vesting schedule and vesting conditions, details are set out in the section headed "D. Pre-IPO Share Option Scheme" in Appendix IV of the Prospectus.

Movements of the share options granted under the Pre-IPO Share Option Scheme for the year ended 31 December 2014 are as follows:

Name of Grantee	Date of grant and exercisable period	Number of shares subject to share options: Outstanding as at 1 January 2014	Granted during the period	Lapsed or cancelled during the period	Exercised during the period	Outstanding as at 31 December 2014	Exercise price per share (HK$)
Directors of our Company							
He Xinming	31 October 2013 for 10 years subject to vesting schedule as set out in the grant letter	7,500,000	—	—	1,875,000	5,625,000	0.01
Chen Kunlie	same as above	3,000,000	—	—	750,000	2,250,000	0.01
Bao Jianyong	same as above	3,000,000	—	—	750,000	2,250,000	0.01
Senior Management of our Group Note							
Cai Chuyang	31 October 2013 for 10 years subject to vesting schedule as set out in the grant letter	6,250,000	—	—	1,562,500	4,687,500	0.01
Shao Yu	same as above	5,250,000	—	—	1,312,500	3,937,500	0.01
Liang Huicai	same as above	3,000,000	—	—	750,000	2,250,000	0.01
Lin Hong	same as above	3,000,000	—	—	750,000	2,250,000	0.01
Shi Yufeng	same as above	3,000,000	—	—	750,000	2,250,000	0.01
Jin Guoting	same as above	3,000,000	—	—	750,000	2,250,000	0.01
Other Employees of our Group Note							
Wan Zhengyu	31 October 2013 for 10 years subject to vesting schedule as set out in the grant letter	3,000,000	—	—	750,000	2,250,000	0.01
Yang Lixin	same as above	3,000,000	—	—	750,000	2,250,000	0.01
Chen Junfeng	same as above	1,500,000	—	—	375,000	1,125,000	0.01
Lin Chifeng	same as above	1,500,000	—	—	375,000	1,125,000	0.01
Feng Chu	same as above	1,500,000	—	—	375,000	1,125,000	0.01
Total		**47,500,000**	**—**	**—**	**11,875,000**	**35,625,000**	

Note : Among such persons, Cai Chuyang, Wan Zhengyu and Feng Chu are also directors of the Company's subsidiaries.

As at 31 December 2014, a total of 35,625,000 shares (representing approximately 2.83% of the Company's existing issued shares) may be issued by the Company if all share options which had been granted under the Pre-IPO Share Option Scheme have been exercised.

Save and except as set out above, no other options have been granted or agreed to be granted by our Company under the Pre-IPO Share Option Scheme. The Directors and directors of the Company's subsidiaries who have been granted options under the Pre-IPO Share Option Scheme, have undertaken to the Company that they will not exercise the options granted to them under the Pre-IPO Share Option Scheme if as a result of which the Company would not be able to comply with the public float requirements of the Listing Rules.

A detailed summary of the terms of the Pre-IPO Share Option Scheme (including the calculation method of the exercise price) has been set out in the section headed "D. Pre-IPO Share Option Scheme" in Appendix IV of the Prospectus.

The Pre-IPO Share Option Scheme does not fall within the ambit of, and are not subject to, the regulations under Chapter 17 of the Listing Rules. Details of the impact of options granted under the Pre-IPO Share Options Scheme on the financial statements since the date of grant and the subsequent financial periods are set out under Note 31 to the financial statements of this annual report.

Share Option Scheme

On 5 November 2013, the Company adopted a share option scheme, which falls within the ambit of, and are subject to, the regulations under chapter 17 of the Listing Rules (the "**Share Option Scheme**"). The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and such as participants, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of the Group.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares of the Company in issue.

The Share Option Scheme will remain in force for a period of 10 years from 5 November 2013 and the options granted thereat shall have a 10-year exercise period. Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules.

No share options have been granted by the Company under the Share Option Scheme since its adoption and up to the date of this annual report.

A summary of the terms of the Share Option Scheme, including the information as required to be disclosed in this annual report pursuant to Rule 17.09 of the Listing Rules, has been set out in the section headed "E. Share Option Scheme" in Appendix IV of the Prospectus.

INTEREST OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As of 31 December 2014, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

1. Long Position in Shares of the Company

		Shares held as at 31 December 2014	
Name of Director/ Chief Executive	**Capacity/Nature of interest**	**Number of underlying Shares**	**Approximate percentage of the Company's existing issued share capital**
Mr. He Xinming [(1), (2)]	Beneficial owner; interests held jointly with another person; interest of a controlled corporation	856,849,732	68.07%
Mr. Chen Kunlie [(1), (3)]	Beneficial owner; interests held jointly with another person; interest of a controlled corporation	855,724,732	67.98%
Mr. Su Sen [(1), (4)]	Interests held jointly with another person; interest of a controlled corporation	854,974,732	67.92%
Mr. Bao Jianyong [(5)]	Beneficial owner; interests of a controlled corporation	45,925,268	3.64%
Mr. Cai Chuyang	Beneficial owner	843,500	0.06%

2. *Long Position in the Underlying Shares*

Name of Director/ Chief Executive	Capacity	Nature of interest	Number of Shares	Approximate percentage of the Company's existing issued share capital
Mr. He Xinming (6)	Beneficial owner	Long position	5,625,000	0.44%
Mr. Chen Kunlie (6)	Beneficial owner	Long position	2,250,000	0.17%
Mr. Bao Jianyong (6)	Beneficial owner	Long position	2,250,000	0.17%
Mr. Cai Chuyang (6)	Beneficial owner	Long position	4,687,500	0.37%

Notes:

(1) On 6 June 2013, the ultimate controlling Shareholders, including, Mr. He Xinming, Mr. Chen Kunlie and Mr. Su Sen, entered into an acting-in-concert confirmation and undertaking to, among other things, confirm their oral agreement to manage the member companies comprising our Group as a group of persons acting-in-concert on 7 April 2006. As such, the ultimate controlling Shareholders together control the 67.92% interest in the share capital of the Company through Profit Strong Investments Limited ("**Profit Strong**"), Superb Idea Investments Limited ("**Superb Idea**"), Cosmo Ray Investments Limited ("**Cosmo Ray**") and High Ride Investments Limited ("**High Ride**"). As a result of the acting-in-concert arrangement, each of Mr. He Xinming, Mr. Chen Kunlie and Mr. Su Sen is deemed to be interested in such 67.92% interest in the share capital of the Company.

(2) Shares owned by Mr. He Xinming consist of (i) 392,518,463 Shares held by Profit Strong, a company wholly owned by Mr. He Xinming, and (ii) 462,456,269 Shares in which Mr. He Xinming is deemed to be interested as a result of the acting-in-concert agreement, and (iii) 1,875,000 Shares beneficiary owned by Mr. He Xinming.

(3) Shares owned by Mr. Chen Kunlie consist of (i) 160,763,325 Shares held by Superb Idea, a company wholly owned by Mr. Chen Kunlie, and (ii) 694,211,407 Shares in which Mr. Chen Kunlie is deemed to be interested as a result of the acting-in-concert agreement, and (iii) 750,000 Shares beneficiary owned by Mr. Chen Kunlie.

(4) Shares owned by Mr. Su Sen consist of (i) 83,074,966 Shares held by Cosmo Ray, a company wholly owned by Mr. Su Sen, and (ii) 771,899,766 Shares in which Mr. Su Sen is deemed to be interested as a result of the acting-in-concert agreement.

(5) Shares owned by Mr. Bao Jianyong consist of (i) 45,025,268 Shares held by Rich Blossom Investments Limited ("Rich Blossom") in which Mr. Bao Jianyong is deemed to be interested since he holds approximately 31.82% of the equity interest of Rich Blossom and (ii) 900,000 Shares beneficiary owned by Mr. Bao Jianyong.

(6) Mr. He Xinming, Mr. Chen Kunlie, Mr. Bao Jianyong and Mr. Cai Chuyang are interested in the underlying shares of the Company by virtue of the options granted to them under the Pre-IPO Share Option Scheme of the Company.

3. *Long position in the shares of associated corporations*

Name of Director	Name of associated corporations	Nature of interest	Number of Shares	Approximate percentage of the Interest
Mr. He Xinming [1], [2]	Qingyuan Nafuna Ceramics Co., Ltd ("**Qingyuan Nafuna**")	Interests in controlled corporation	N/A	9.65%
	Foshan Dongpeng Development Co., Ltd ("**Foshan Dongpeng Development**")	Interests in controlled corporation	N/A	7.69%
Mr. Chen Kunlie [1], [2]	Qingyuan Nafuna	Interests in controlled corporation	N/A	9.65%
	Foshan Dongpeng Development	Interests in controlled corporation	N/A	7.69%
Mr. Bao Jianyong [1], [2]	Qingyuan Nafuna	Interests in controlled corporation	N/A	9.65%
	Foshan Dongpeng Development	Interests in controlled corporation	N/A	7.69%
Mr. Su Sen [1], [2]	Qingyuan Nafuna	Interests in controlled corporation	N/A	9.65%
	Foshan Dongpeng Development	Interests in controlled corporation	N/A	7.69%
Ms. Sun Limei	High Ride Investments Limited	Interests in controlled corporation	1,271,787	5.51%

Notes:

(1) Mr. He Xinming, Mr. Chen Kunlie, Mr. Su Sen and Mr. Bao Jianyong own an aggregate of 77.81% equity interests in Foshan Yuanheng, which in turn owns 9.65% equity interest in Qingyuan Nafuna, a majority-owned subsidiary of our Company, and are therefore deemed to be indirectly interested in 9.65% equity interest in Qingyuan Nafuna.

(2) Mr. He Xinming, Mr. Chen Kunlie, Mr. Su Sen and Mr. Bao Jianyong own an aggregate of 77.81% equity interests in Foshan Yuanheng, which in turn owns 7.69% equity interest in Foshan Dongpeng Development, a majority-owned subsidiary of our Company, and are therefore deemed to be indirectly interested in 7.69% equity interest in Foshan Dongpeng Development.

Save as disclosed above and to the best knowledge of the Directors, as of the date hereof, none of the Directors and the chief executive has any interests and/or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of the SFO) which will 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 they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

The register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as of the date hereof, the following Shareholders had notified the Company of its interests and/or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the Shares and underlying Shares

		Shares held as at 31 December 2014	
Name	**Nature of interests**	**Number of Shares held**	**Approximate percentage of the Company's existing issued share capital**
Mr. He Xinming(1), (2)	Beneficial owner; Interest held jointly with another person; interest of a controlled corporation	856,849,732	68.07%
Profit Strong(2)	Beneficial owner	854,974,732	67.92%
Ms. Zhong Qinhua(3)	Interest of spouse	856,849,732	68.07%
Mr. Chen Kunlie(1), (4)	Beneficial owner; Interest held jointly with another person; interest of a controlled corporation	855,724,732	67.98%
Superb Idea(4)	Beneficial owner	854,974,732	67.92%
Ms. Chen Haihong(5)	Interest of spouse	855,724,732	67.98%

Name	Nature of interests	Shares held as at 31 December 2014 Number of Shares held	Approximate percentage of the Company's existing issued share capital
Mr. Su Sen[(1), (6)]	Interest held jointly with another person; interest of a controlled corporation	854,974,732	67.92%
Cosmo Ray[(6)]	Beneficial owner	854,974,732	67.92%
Ms. Lin Shiying[(7)]	Interest of spouse	854,974,732	67.92%
Mr. He Xinzhong[(1). (8)]	Interest held jointly with another person; interest of a controlled corporation	854,974,732	67.92%
High Rider[(9)]	Beneficial owner	854,974,732	67.92%
Ms. Chen Shaokun[(10)]	Interest of spouse	854,974,732	67.92%
Mr. Chen Yezhi[(1), (11)]	Interest held jointly with another person; interest of a controlled corporation	854,974,732	67.92%
Ms. Zhuang Kefang[(12)]	Interest of spouse	854,974,732	67.92%
Mr. Ou Haoquan[(1), (13)]	Interest held jointly with another person; interest of a controlled corporation	854,974,732	67.92%
Ms. Lin Jinzhi[(14)]	Interest of spouse	854,974,732	67.92%
Mr. Luo Siwei[(1), (15)]	Interest held jointly with another person; interest of a controlled corporation	854,974,732	67.92%
Ms. Huang Xiaoyuan[(16)]	Interest of spouse	854,974,732	67.92%
Mr. Zhong Baomin[(1), (17)]	Interest held jointly with another person; interest of a controlled corporation	854,974,732	67.92%
Ms. Xu Jufang[(18)]	Interest of spouse	854,974,732	67.92%
Sequoia[(19)]	Beneficial owner	97,552,800	7.75%

Notes:

(1) On 6 June 2013, the Company's ultimate controlling Shareholders, namely, Mr. He Xinming, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin, entered into an acting-in-concert confirmation and undertaking to, among other things, confirm their oral agreement to manage the member companies comprising our Group as a group of persons acting-in-concert on 7 April 2006. For more details, please refer to the section on "Relationship with our controlling Shareholders — Our Controlling Shareholders Acting in Concert" of the Prospectus. As such, the Company's ultimate controlling Shareholders together control the 67.92% interest in the share capital of the Company through Profit Strong, Superb Idea, Cosmo Ray and High Ride. As a result of the acting-in-concert agreement, each of the Company's ultimate controlling Shareholders is deemed to be interested in such 67.92% interest in the share capital of the Company.

(2) Shares in which Mr. He Xinming is interested consist of (i) 392,518,463 Shares held by Profit Strong, a company wholly owned by Mr. He Xinming, (ii) 462,456,269 Shares in which Mr. He Xinming is deemed to be interested as a result of the acting-in-concert agreement, and (iii) 1,875,000 Shares beneficially owned by Mr. He Xinming. Mr. He Xinming is also the sole director of Profit Strong.

(3) Ms. Zhong Qinhua is the spouse of Mr. He Xinming. Under the SFO, Ms. Zhong Qinhua is deemed to be interested in the same number of Shares in which Mr. He is interested.

(4) Shares in which Mr. Chen Kunlie is interested consist of (i) 160,763,325 Shares held by Superb Idea, a company wholly owned by Mr. Chen Kunlie, (ii) 694,211,407 Shares in which Mr. Chen Kunlie is deemed to be interested as a result of the acting-in-concert agreement, and (iii) 750,000 Shares beneficially owned by Mr. Chen Kunlie. Mr. Chen Kunlie is also the sole director of Superb Idea.

(5) Ms. Chen Haihong is the spouse of Mr. Chen Kunlie. Under the SFO, Ms. Chen Haihong is deemed to be interested in the same number of Shares in which Mr. Chen Kunlie is interested.

(6) Shares in which Mr. Su Sen are interested consist of (i) 83,074,966 Shares held by Cosmo Ray, a company wholly owned by Mr. Su Sen, and (ii) 771,899,766 Shares in which Mr. Su Sen is deemed to be interested as a result of the acting-in-concert agreement. Mr. Su Sen is also the sole director of Cosmo Ray.

(7) Ms. Lin Shiyi is the spouse of Mr. Su Sen. Under the SFO, Ms. Lin Shiyin is deemed to be interested in the same number of Shares in which Mr. Su Sen is interested.

(8) Shares in which Mr. He Xinzhong are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. He Xinzhong is deemed to be interested as a result of the acting-in-concert agreement.

(9) High Ride is collectively controlled by Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin. High Ride is owned by Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin as to 19.98%, 19.53%, 17.64%, 13.19% and 8.05%, respectively.

(10) Ms. Chen Shaokun is the spouse of Mr. He Xinzhong. Under the SFO, Ms. Chen Shaokun is deemed to be interested in the same number of Shares in which Mr. He Xinzhong is interested.

(11) Shares in which Mr. Chen Yezhi are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Chen Yezhi is deemed to be interested as a result of the acting-in-concert agreement.

(12) Ms. Zhuang Kefang is the spouse of Mr. Chen Yezhi. Under the SFO, Ms. Zhuang Kefang is deemed to be interested in the same number of Shares in which Mr. Chen Yezhi is interested.

(13) Shares in which Mr. Ou Haoquan are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Ou Haoquan is deemed to be interested as a result of the acting-in-concert agreement.

(14) Ms. Lin Jinzhi is the spouse of Mr. Ou Haoquan. Under the SFO, Ms. Lin Jinzhi is deemed to be interested in the same number of Shares in which Mr. Ou Haoquan is interested.

(15) Shares in which Mr. Luo Siwei are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Luo Siwei is deemed to be interested as a result of the acting-in-concert agreement.

(16) Ms. Huang Xiaoyuan is the spouse of Mr. Luo Siwei. Under the SFO, Ms. Huang Xiaoyuan is deemed to be interested in the same number of Shares in which Mr. Luo Siwei is interested.

(17) Shares in which Mr. Zhong Baomin are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Zhong Baomin is deemed to be interested as a result of the acting-in-concert agreement.

(18) Ms. Xu Jufang is the spouse of Mr. Zhong Baomin. Under the SFO, Ms. Xu Jufang is deemed to be interested in the same number of Shares in which Mr. Zhong Baomin is interested.

(19) Sequoia refers to Sequoia Capital China Growth Fund I, L.P., Sequoia Capital China Growth Partners Fund I, L.P., and Sequoia Capital China GF Principals Fund I, L,P, which will hold approximately 6.76%, 0.16% and 0.83%, respectively, of the outstanding shares immediately following the completion of the IPO.

Substantial Shareholders of Other Members of the Group

Name	Name of other member of our Group	Percentage of interest
Mr. Jiang Yuehua	Foshan Gaoming Wenchang Furniture Co., Ltd.	20%
Mr. Tang Bo	Foshan Gaoming Wenchang Furniture Co., Ltd.	10%
Innoci International L.L.C	Guangzhou Yinai Sanitary Products Co., Ltd.	38%
Mr. Ren Baicheng	Innoci Germany GmbH	38%
Mr. Pan Weiguo	Guangdong Dongpeng Home Co., Ltd.	5%
Guilin Hemei Decoration Engineering Co., Ltd.	Guangdong Dongpeng Home Co., Ltd.	33%

Save as disclosed above, as at the latest practicable date, and to the best knowledge of the Directors, the Company had not been notified by any person (other than Directors or president of the Group) who had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Pre-IPO Share Option Scheme and the Share Option Scheme, at no time during the year under review was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the Group's largest supplier accounted for 6.34% of the Group's total purchase. The Group's five largest suppliers accounted for 15.62% of the Group's total purchase.

In the year under review, the Group's largest customer accounted for 3.05% of the Group's total sales. The Group's five largest customers accounted for 8.61% of the Group's total sales. Save as disclosed above, none of the Directors or any of their associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

EMPLOYEES

As of 31 December 2014, the Group had a total of approximately 9,043 full-time employees, as compared to 7,922 employees as at 31 December 2013. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination. Remuneration of the Group's employees includes basic salaries, allowances, cash bonus, share-based incentive and other employee benefits.

The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence.

The emoluments of the Directors and senior management of the Group are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individual in the Group are set out in Note 13 and Note 14 to the financial statements of this annual report.

The Company has also adopted the Pre-IPO Share Option Scheme and the Share Option Scheme as incentive for Directors and eligible employees. Details of the schemes are set out under the section headed "Share Option Schemes" of this annual report and in Note 31 to the financial statements of this annual report.

RETIREMENT BENEFITS SCHEME

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

CONTINUING CONNECTED TRANSACTION

The Group has entered into a number of transactions in relation to various lease agreements with (i) Hunan Jinpeng New Building Materials Co., Ltd. (湖南金鵬新型建材有限公司) ("**Hunan Jinpeng**"); (ii) Shandong Jialiya Ceramic Co., Ltd. (山東嘉麗雅陶瓷股份有限公司) ("**Shandong Jialiya**"); and (iii) Guangdong Dongpeng Ceramics (the "**Continuing Connected Transactions**"). Each of Hunan Jinpeng, Shandong Jialiya and Guangdong Dongpeng Ceramics is controlled, directly and indirectly, by Mr. He Xinming and Mr. Chen Kunlie. As a result, upon listing of the Shares (the "**Listing**") on the main board of the Stock Exchange, they became connected persons of the Company under the Listing Rules. These transactions on an aggregate basis, constitute continuing connected transactions that are subject to announcement, reporting and annual review requirements.

Details of the Continuing Connected Transactions are disclosed in the section "Continuing Connected Transactions" of the Prospectus. As these transactions will continue after the Listing on a recurring basis, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted a waiver from strict compliance with the announcement requirements under Rule 14A.42(3) of the Listing Rules in respect of each of the continuing connected transactions contemplated under the Continuing Connected Transactions.

The respective terms under the Continuing Connected Transactions are set out below:

No.	Lessor	Lessee	Purpose of lease	Term	Aggregate Amount	Annual cap
1.	Hunan Jinpeng	Lixian Xinpeng	Rental expenses paid to Hunan Jinpeng for letting of premises and production lines located at No.59 Dayan Road, Qiao Jiao He, Linan Town, Li County, Changde City, Hunaqn Province, PRC	1 January 2013 to 31 December 2015	RMB11,576,000	RMB11,576,000
2.	Shandong Jialiya	Zibo Kapuer	Rental expenses paid to Shandong Jialiya for letting of premises and production lines located at Jinma Village, Shuangyang Town, Zibo City, Shangdong Province, PRC	1 July 2013 to 31 December 2015	RMB12,000,000	RMB12,000,000
3.	Guandong Dongpeng Ceramics	i. Foshan Dongpeng Ceramics Co., Ltd.; ii. Fosha Dongpeng Development and iii. Guangdong Yuhe	Rental expenses paid to Guangdong Dongpeng Ceramics for letting of premises located at No.8 Jiangwan Third Road, Chancheng District, Foshan City, Guangdong Province, PRC	1 January 2013 to 31 December 2015	RMB4,640,000	RMB4,700,000

The independent non-executive Directors and Audit Committee have reviewed the Continuing Connected Transactions for the year ended 31 December 2014 and have confirmed that these Continuing Connected Transactions are:

1. in the interest of the Group to have the Continuing Connected Transactions;
2. entered into in the ordinary and usual course of business of the Group;
3. entered into on normal commercial terms;
4. in accordance with the terms of respective agreements governing the transactions that are fair and reasonable and in the interests of the Company and the Shareholders of the Company as a whole; and
5. the annual cap for the transactions under the Continuing Connected Transactions is fair and reasonable and in the interest of the Shareholders as a whole.

In accordance with the requirement of section 14A.38 of the Listing Rules, the Board has engaged the auditors to perform certain procedures on the Continuing Connected Transactions. The auditors have confirmed that the Continuing Connected Transactions:

1. have received the approval of the Board;
2. are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
3. have been entered into in accordance with the relevant agreement governing the transactions; and have not exceeded the cap disclosed in the Prospectus.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2014 are set out in Note 36 of the financial statements of this annual report.

For those related party transactions or those continuing related party transactions (as the case may be) falling under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules, please refer to the details set out in the section headed "Continuing Connected Transactions" of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the best knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance report on pages 42 to 61 of this annual report.

USE OF NET PROCEEDS FROM IPO

The net proceeds from the Company's initial public offering ("**IPO**") amounted to HK$659.9 million (equivalent to approximately RMB520.3 million). Such net proceeds are intended to be applied in accordance with the proposed applications as set out in the section headed "Amendments to the Prospectus – Offering Statistics" in the supplemental prospectus issued by the Company on 28 November 2013.

		Net Proceeds from the Company's IPO		
Purpose	**Percentage to total amount**	**Net Proceeds**	**Utilised amount (as at 31 Dec 2014)**	**Unutilised amount (as at 31 Dec 2014)**
		RMB'000	RMB'000	RMB'000
For the expansion and upgrade of production facilities	40%	208,120.0	208,120.0	—
For the distribution network (including opening of additional self-owned retail outlets and product showrooms), the setting up of additional local sales management offices, and the hiring of additional sales and marketing personnel	10%	52,030.0	16,250.0	35,780.0
For research and development, including the opening of a new research and development center (primarily consisting of proceeds used for the construction of the center and the purchase of production and testing equipment for prototypes)	10%	52,030.0	52,030.0	—
For the repayment of loans	10%	52,030.0	52,030.0	—
For mergers and acquisitions to complement our existing product lines and sales channels	25%	130,075.0	15,000.0	115,075.0
Additional working capital and other general corporate purposes	5%	26,015.0	26,015.0	—
Total	100%	520,300.0	369,445.0	150,855.0

EVENTS AFTER THE REPORTING PERIOD

Deed of termination

On 16 February 2015, Mr. He Xinming (an executive Director), Mr. Chen Kunlie (an executive Director), Mr. Su Sen (a non-executive Director), Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin (the "**Controlling Shareholders**") entered into a deed of termination to terminate an acting in concert deed that was entered into amongst the Controlling Shareholders on 6 June 2013.

Amendments to the Pre-IPO Share Option Scheme

On 31 March 2015, an extraordinary general meeting (the "**EGM**") of the Company was convened for the purpose of considering, and if thought fit, pass certain proposed amendments, to the pre-IPO share option scheme that was adopted by the Company on 31 October 2013, as ordinary resolutions of the Company. As a majority of the votes were cast in favour of each of the considered resolutions, all resolutions were duly passed as ordinary resolutions at the end of the EGM. For more details, please refer to the Company's announcement and circular – "Proposed Amendments to the Terms of the Options Granted Under the Pre-IPO Share Option Scheme" and the Company's announcement – "Poll Results of the Extraordinary General Meeting held on 31 March 2015" posted on the website the Stock Exchange on 16 March 2015 and 31 March 2015, respectively.

AUDITORS

Deloitte Touche Tohmatsu were appointed as auditors of the Company since Listing and will retire at the forthcoming AGM. A resolution will be proposed at the forthcoming AGM to re-appoint Deloitte Touche Tohmatsu as the auditors of the Company.

The consolidated financial statements of the Group for the year ended 31 December 2014 have been audited by Deloitte Touche Tohmatsu.

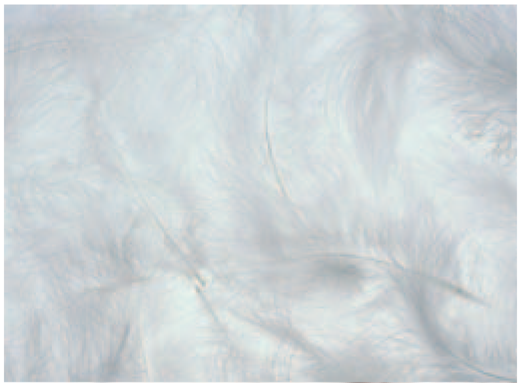
On behalf of the Board
Dongpeng Holdings Company Limited
He Xinming
Chairman

16 March 2015

Independent Auditor's Report

Beauty of Tao

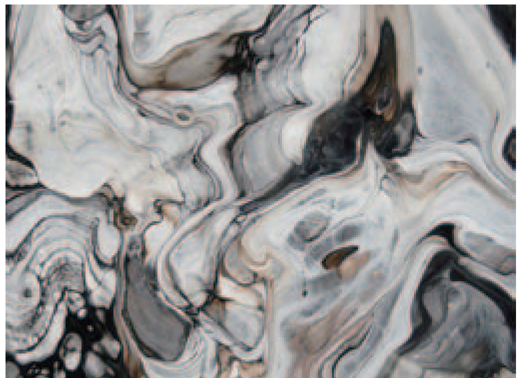
The world's deepest beauty lies in the perceptual awareness and rational expression of people towards the sensory world. Starting from a philosophical view, Dongpeng experiences the unique aesthetics given off by the kaleidoscopic world and then seek a deeper spiritual artistic expression

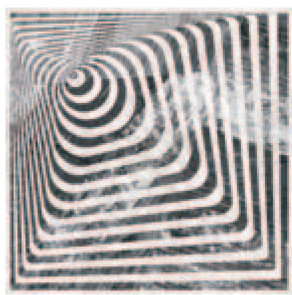


DG807001
800X800mm

Strong abrasive resistance 强耐磨 | Anti-acid and alkali 耐酸碱 | High rigidity 高硬度 | No radiation 无辐射

Softness, like a breeze on the face, directly touches the heart. The product design is inspired by the softest feather. Softness of lightest feather will relax the human heart and body naturally, by fusing with the curves of feathers, a light, soft, pure and white pattern is formed. People can feel the special softness and peaceful feeling. It is an inevitable choice for a home habitat with a simple atmosphere.





DG807016
800X800mm

Strong abrasive resistance 强耐磨 | Anti-acid and alkali 耐酸碱 | High rigidity 高硬度 | No radiation 无辐射

The product uses irregular spirals as line pattern, matched with soft white and hard black colours, creating a multi-dimensional pattern filled with plenty of associated perspectives with extremely strong artistic sense. When used for a large area, it provides a trendy decorative artistic space.

Independent Auditor's Report

TO THE MEMBERS OF
DONGPENG HOLDINGS COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Dongpeng Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 98 to 182, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with 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, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	NOTES	**2014**	2013
		RMB'000	RMB'000
Revenue	7	**3,893,101**	3,368,219
Cost of sales		**(2,395,301)**	(2,119,768)
Gross profit		**1,497,800**	1,248,451
Other income	8	**195,015**	82,758
Other gains and losses	9	**(24,718)**	(24,522)
Distribution and selling expenses		**(505,723)**	(423,965)
Administrative expenses		**(281,224)**	(215,218)
Share-based payment expenses		**(40,323)**	(16,971)
Other expenses		**(82,344)**	(74,352)
Change in fair value of redeemable convertible preferred shares	28	**—**	(35,955)
Finance costs	10	**(35,924)**	(38,043)
Profit before tax		**722,559**	502,183
Income tax expense	11	**(158,072)**	(157,007)
Profit and total comprehensive income for the year		**564,487**	345,176
Attributable to:			
Owners of the Company		**563,711**	339,498
Non-controlling interests		**776**	5,678
		564,487	345,176
Earnings per share (RMB)			
– Basic	16	**0.45**	0.36
– Diluted	16	**0.44**	0.36

Consolidated Statement of Financial Position

At 31 December 2014

	NOTES	**2014**	2013
		RMB'000	RMB'000
Non-current Assets			
Property, plant and equipment	17	**1,345,124**	1,094,949
Prepaid lease payments	18	**374,310**	380,870
Deferred tax assets	29	**56,731**	63,051
Deposits for leasehold land		**10,290**	3,848
Deposits for acquisition of property, plant and equipment		**3,783**	4,227
Goodwill	37	**3,850**	—
Other intangible assets	37	**670**	—
		1,794,758	1,546,945
Current Assets			
Inventories	20	**983,971**	870,007
Trade and other receivables	21	**648,078**	558,779
Tax recoverable		**9,748**	964
Amounts due from related parties	26	**78**	86
Amounts due from shareholders	26	**11**	11
Prepaid lease payments	18	**8,708**	8,481
Short-term investments	22	**125,993**	13,000
Pledged bank deposits	23	**37,085**	12,328
Restricted Bank Deposits		**205,720**	—
Bank balances and cash	23	**387,676**	803,394
		2,407,068	2,267,050
Current Liabilities			
Trade and other payables	24	**1,356,508**	1,238,533
Amounts due to related parties	26	**12,122**	18,920
Amounts due to shareholders	26	**—**	8,801
Amounts due to non-controlling shareholders of a subsidiary	26	**1,650**	10,503
Obligation under a finance lease	25	**4,896**	4,595
Bank borrowings	27	**157,588**	350,967
Tax liabilities		**48,459**	79,809
		1,581,223	1,712,128
Net Current Assets		**825,845**	554,922
Total Assets Less Current Liabilities		**2,620,603**	2,101,867

Consolidated Statement of Financial Position

At 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Non-current Liabilities			
Obligation under a finance lease	25	**25,270**	30,166
Bank borrowings	27	**50,000**	86,992
Deferred taxation liabilities	29	**56,738**	37,327
		132,008	154,485
Net Assets		**2,488,595**	1,947,382
Capital and Reserves			
Share capital	30	**15**	15
Reserves		**2,380,639**	1,846,489
Equity attributable to owners of the Company		**2,380,654**	1,846,504
Non-controlling interests		**107,941**	100,878
Total Equity		**2,488,595**	1,947,382

The consolidated financial statements on pages 98 to 182 were approved and authorised for issue by the Board of Directors on 16 March 2015 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company								
	Paid-in/ share capital RMB'000	Share premium RMB'000	Share options reserve RMB'000	Statutory surplus reserve RMB'000 (note i)	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2013	191,019	—	—	36,243	(37,149)	55,931	246,044	15,882	261,926
Profit and total comprehensive income for the year	—	—	—	—	—	339,498	339,498	5,678	345,176
Transfer to statutory surplus reserve	—	—	—	89,684	—	(89,684)	—	—	—
Acquisition of subsidiaries (note 37)	—	—	—	—	—	—	—	(29)	(29)
Deemed distribution to owners under Corporate Reorganisation (ii)	(191,008)	—	—	—	(11,955)	—	(202,963)	(15,882)	(218,845)
Deemed contribution from owners under Corporate Reorganisation (iii)	—	—	—	—	7,365	—	7,365	—	7,365
Waiver of amount due to related party under Corporate Reorganization (note 39)	—	—	—	—	10,864	—	10,864	—	10,864
Capital injection from non-controlling shareholders (iv)	—	—	—	—	745,918	—	745,918	104,082	850,000
Issuance of shares upon initial public offering	3	578,035	—	—	—	—	578,038	—	578,038
Share issue expenses	—	(26,217)	—	—	—	—	(26,217)	—	(26,217)
Conversion of Series A Shares	1	220,985	—	—	—	—	220,986	—	220,986
Recognition of equity-settled share-based payments	—	—	16,971	—	—	—	16,971	—	16,971
Dividend (note 15)	—	(90,000)	—	—	—	—	(90,000)	—	(90,000)
Dividend to a non-controlling shareholder	—	—	—	—	—	—	—	(8,853)	(8,853)
At 31 December 2013	15	682,803	16,971	125,927	715,043	305,745	1,846,504	100,878	1,947,382
Profit and total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**563,711**	**563,711**	**776**	**564,487**
Transfer to statutory surplus reserve	**—**	**—**	**—**	**58,507**	**—**	**(58,507)**	**—**	**—**	**—**
Acquisition of a subsidiary (note 37)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,287**	**6,287**
Dividend (note 15)	**—**	**(69,979)**	**—**	**—**	**—**	**—**	**(69,979)**	**—**	**(69,979)**
Issue of shares under share option scheme	**—**	**26,804**	**(26,709)**	**—**	**—**	**—**	**95**	**—**	**95**
Recognition of equity-settled share-based payments	**—**	**—**	**40,323**	**—**	**—**	**—**	**40,323**	**—**	**40,323**
At 31 December 2014	**15**	**639,628**	**30,585**	**184,434**	**715,043**	**810,949**	**2,380,654**	**107,941**	**2,488,595**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

Notes:

(i) In accordance with the relevant PRC laws and regulations and the Articles of Association of the relevant companies, the People's Republic of China ("PRC") subsidiaries are required to appropriate 10% of their profit after taxation as reported in their statutory financial statements prepared under the PRC generally accepted accounting principles to the statutory surplus reserve. The appropriation to the statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant companies.

The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue. However, when converting the statutory surplus reserve of PRC subsidiaries into capital, the remaining balance of such reserve must not be less than 25% of the registered capital of the relevant companies.

(ii) In January 2013, as part of the Corporate Reorganisation, several non-wholly owned subsidiaries were transferred to the then holding company of the Group at a cash consideration of RMB218,845,000.

(iii) On 1 January 2013, the Group disposed of a wholly-owned subsidiary at a consideration of RMB1,000,000 to a company controlled by certain members of the Controlling Shareholders. The gain on disposal of this subsidiary was treated as deemed contribution from owners under Corporate Reorganisation (note 38).

(iv) In July 2013, Foshan Yuanheng Investment Holding Co., Ltd ("Foshan Yuanheng Investment"), a company controlled by certain members of the Controlling Shareholders, made capital injection of approximately RMB300,000,000 in Foshan Dongpeng Development (as defined in note 41) and approximately RMB550,000,000 in Qingyuan Nafuna (as defined in note 41). After these capital injections, the Group continued to control Foshan Dongpeng Development and Qingyuan Nafuna. Foshan Dongpeng Development and Qingyuan Nafuna are non-wholly owned subsidiaries of the Group.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**722,559**	502,183
Adjustments for:		
Interest income	**(38,168)**	(17,071)
Finance costs	**35,924**	38,043
Depreciation of property, plant and equipment	**145,161**	120,553
Allowance for doubtful receivables	**17,720**	16,889
Allowance for obsolete inventories	**4,027**	39,723
Share-based payments expense	**40,323**	16,971
Change in fair value of redeemable convertible preferred shares	**—**	35,955
Amortisation of prepaid lease payments	**8,481**	5,502
Net loss on disposal of property, plant and equipment	**714**	1,382
Effect of foreign exchange rate changes	**(799)**	1,618
Operating cash flows before movements in working capital	**935,942**	761,748
(Increase) decrease in inventories	**(114,318)**	234,821
Increase in trade and other receivables	**(176,658)**	(163,044)
Decrease in amounts due from related parties	**8**	35,870
Increase in trade and other payables	**7,247**	60,642
Decrease in amounts due to related parties	**(16,466)**	(259,119)
Net cash generated from operations	**635,755**	670,918
Income tax paid	**(172,475)**	(124,254)
Interest paid	**(35,924)**	(38,043)
NET CASH FROM OPERATING ACTIVITIES	**427,356**	508,621
INVESTING ACTIVITIES		
Interest received	**38,168**	17,071
Proceeds from disposal of property, plant and equipment	**5,218**	5,635
Payments for property, plant and equipment	**(294,903)**	(213,867)
Payments for prepaid lease payments	**(8,590)**	(143,750)
Purchase of short-term investment	**(13,477,722)**	(13,000)
Advances to related parties	**—**	(145,119)
Disposal of short term investment	**13,364,729**	—
Repayments from related parties	**(242)**	211,745
Withdrawal of pledged bank deposits	**436,024**	476,462
Withdrawal of Restricted bank deposits	**1,180,890**	—
Placement of pledged bank deposits	**(460,781)**	(419,112)
Placement of Restricted bank deposits	**(1,386,610)**	—
Net cash inflow on acquisition of subsidiaries (note 37)	**643**	18,504
Net cash inflow on disposal of a subsidiary (note 38)	**—**	970
NET CASH USED IN INVESTING ACTIVITIES	**(603,176)**	(204,461)

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**737,027**	842,371
Proceeds from issuance of shares upon initial public offering	**—**	578,038
Expenses on issue of shares	**—**	(26,217)
Repayments of bank borrowings	**(895,501)**	(949,652)
Repayments of obligations under a finance lease	**(4,595)**	(4,007)
Capital injection from non-controlling shareholders	**—**	850,000
Proceeds from issue of redeemable convertible preferred shares	**—**	185,031
Repayments to related parties	**—**	(1,201,160)
Advances from related parties	**9,910**	455,803
Deemed distribution to owners under Corporate Reorganisation	**—**	(218,845)
Dividend paid	**(87,633)**	(250,501)
Proceeds from issuance of shares under share option scheme	**95**	—
NET CASH (USED) FROM FINANCING ACTIVITIES	**(240,697)**	260,861
NET (DECRESE) INCREASE IN CASH AND CASH EQUIVALENTS	**(416,517)**	565,021
Effect of foreign exchange rate changes	**799**	(1,618)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**803,394**	239,991
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**387,676**	803,394

1. GENERAL AND GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 March 2012 under the Companies Law, CAP 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 9 December 2013. Its parent and ultimate holding company is Profit Strong Investments Limited, a company incorporated in the British Virgin Islands ("BVI"), and its ultimate controlling parties are Mr. He Xinming, who is also the chairman of the Company, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin ("Controlling Shareholders"). The addresses of the registered office of the Company is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands, the address of the Company is 20/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, and the principal place of business and head office is located in No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, the People's Republic of China ("PRC").

The principal activity of the Company is investment holding company. Details of the principal activities of its subsidiaries are set out in note 41.

In preparation for the initial listing of the shares of the Company on the Main Board of the Stock Exchange, the companies now comprising the Group underwent a corporate reorganisation (the "Corporate Reorganisation") to rationalise the group structure. As a result of the Corporate Reorganisation, the Company became the holding company of the Group on 29 January 2013. Details of the Corporate Reorganisation are more fully explained in the section headed "History and Corporate Development" to the prospectus of the Company dated 18 November 2013.

The Group resulting from the Corporate Reorganisation, which involved a series of acquisitions involving entities under common control of the Controlling shareholders, is regarded as a continuing entity. The consolidated financial statements have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting For Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as if the group structure under the Corporate Reorganisation had been in existence throughout the year or since their respective dates of incorporation/establishment of the entities now comprising the Group, whichever is the shorter period.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied all HKFRSs issued by Hong Kong Institute Certificated Public Accountants which are effective for annual period beginning on 1 January 2014.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

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

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

The directors of the Company anticipate that the application of these new and revised standards will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.32).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

— deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefit* respectively;

— liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

— assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of goods that result in award credits for distributors are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the awards for which they could be redeemed and accounted for as deferred income. Such consideration is not recognised as revenue at the time of the initial sale transaction — but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such construction in progress are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to profit or loss on a straight-line basis over the lease terms as stated in the relevant land use rights certificates granted for usage by the Group in the PRC. Prepaid lease payments which are to be charged to profit or loss in the next twelve months are classified as current assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets - research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

Payments to state-managed retirement benefit schemes which are defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs that are directly attributable to acquisition or issue of financial assets and financial liabilities measured at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are all classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets classified as financial assets at FVTPL include short term investments.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains" line item in the consolidated statement of profit or loss and other comprehensive income. The dividend or interest earned on the financial assets is included in the "other income" line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 6.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, amounts due from shareholders, pledged bank deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For loans and receivables that are assessed not to be impaired individually, such as trade receivables, are in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss where there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the loans and receivables' original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For loans and receivables measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the year. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at fair value through profit or loss, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss ("FVTPL")

Financial liabilities at FVTPL comprise redeemable convertible preferred shares.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Redeemable Convertible Preferred Shares

The Group designated the redeemable convertible preferred shares as financial liabilities at fair value through profit or loss as they are contracts containing one or more embedded derivatives. They are initially recognised at fair value. Any directly attributable transaction costs are recognised to profit or loss immediately. Subsequent to initial recognition, the redeemable convertible preferred shares are carried at fair value with changes in fair value recognised in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to related parties, amounts due to shareholders, amounts due to non-controlling shareholders of a subsidiary and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience, expectations of the future and other information that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation and residual values, directors of the Company estimates the useful lives of various categories of property, plant and equipment according to the Group's experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful lives.

As at 31 December 2014, the carrying amount of property, plant and equipment is RMB1,345,124,000 (2013: RMB1,094,949,000).

Deferred tax asset

Deferred tax assets relating to certain temporary differences and tax losses are recognised when the directors of the Company considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

The realisability of the deferred tax assets mainly depends on whether sufficient future profits will be available in the future. The directors of the Company determines the deferred tax assets based on the enacted or substantially enacted tax rates and the best estimate of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. The directors of the Company reviews the assumptions and profit projections on a regular basis. In cases where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes place.

As at 31 December 2014, the carrying amount of deferred tax assets is RMB56,731,000 (2013: RMB63,051,000).

Valuation of inventories

The directors estimate the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an additional write-off or write-down may arise.

As at 31 December 2014, the allowance for obsolete inventories is RMB97,409,000 (2013: RMB93,382,000).

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill as at 31 December 2014 was RMB3.9 million (31 December 2013: Nil). No impairment loss recognised during the reporting period.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment 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 (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, the allowance for trade receivables is RMB39,875,000 (2013: RMB30,760,000) and for other receivable is RMB8,057,000 (2013: Nil).

As at 31 December 2014, the carrying amount of other receivables is RMB10,131,000 (2013: RMB13,213,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes bank borrowings as disclosed in note 27, net of cash and cash equivalents, short term investment and pledged bank deposits, and equity attributable to owners of the Company, comprising paid-in/share capital and reserves.

The directors of the Company review the capital structure periodically. The Group considers the cost of capital and risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares as well as the raising of new debts.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2014 RMB'000	2013 RMB'000
Financial liabilitites		
Amortised cost	**1,310,201**	1,452,001
Obligation under a finance lease	**30,166**	34,761
Financial assets		
Loans and receivables (including cash and cash equivalents)	**956,857**	1,294,433
Financial assets at fair value through profit or loss	**125,993**	13,000

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, short-term investment, amounts due from related parties, amounts due from shareholders, pledged bank deposits, restriced bank deposits, bank balances and cash, trade and other payables, amounts due to related parties, amounts due to shareholders, amounts due to non-controlling shareholders of a subsidiary, obligation under a finance lease and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Save as the short-term investment disclosed in note 22, which is invested for the purpose of better utilisation of temporary idle cash, the Group does not enter into any trade financial instruments, including derivative financial instruments, for hedging or speculative purpose. There has been no significant change to the Group's exposure to financial risks or the manner in which it manages and measures the Group's financial risks.

Market risk

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and financial liabilities, mainly interest bearing bank balances and bank borrowings at variable interest rates. Fixed rate bank borrowings, finance lease obligations and pledged bank deposits expose the Group to fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate risk should the need arise. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates offered by the People's Bank of China ("PBOC") from its RMB denominated borrowings.

6. FINANCIAL INSTRUMENTS *(continued)*

b. *Financial risk management objectives and policies* *(continued)*

Market risk *(continued)*

Interest rate risk (continued)

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank borrowings at the end of the reporting period and assumed that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year.

The sensitivity analysis does not include the effect of variable rate bank balances as, in the opinion of the directors, the effect of a reasonable possible change in the interest rate of bank balances is insignificant.

If interest rates had been 50 basis points (2013: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year would be decreased by RMB645,000 (2013: RMB438,000).

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

Currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures in RMB.

The Group undertakes certain sale and purchase transactions denominated in foreign currencies, which expose the Group to foreign currency risk. The Group is mainly exposed to currency risk of United States dollar ("USD") and Hong Kong dollar ("HKD") against RMB. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2014	2013
	RMB'000	RMB'000
Assets		
USD	**42,228**	33,341
HKD	**1,454**	555,730
EURO	**2,622**	—

	2014	2013
	RMB'000	RMB'000
Liabilitites		
USD	**16,272**	2,616

6. FINANCIAL INSTRUMENTS *(continued)*

b. *Financial risk management objectives and policies* *(continued)*

Currency risk *(continued)*

The Group's foreign currency denominated monetary assets include bank balances amounting to RMB9,518,000 (2013: RMB562,381,000), amounts due from shareholders of RMB11,000 (2013: RMB11,000) and trade receivables amounting to RMB36,562,000 (2013: RMB26,679,000), and the monetary liabilities include trade payables amounting to RMB16,272,000 (2013: RMB2,616,000).

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in RMB against relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2013: 5%) change in foreign currency rates. 5% (2013: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB strengthens 5% against the relevant currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year.

	At 31 December	
	2014	2013
	RMB'000	RMB'000
USD		
Decrease in profit for the year	**(2,194)**	(1,152)
HKD		
Decrease in profit for the year	**(73)**	(27,787)
EURO		
Decrease in profit for the year	**(98)**	—

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The directors of the Company consider that the credit risk exposure of the Group is low as the Group normally requires advance or immediate payment when goods are delivered except for (i) sales to certain property developers which are allowed a credit period of 90 days to 180 days or some may be allowed to pay in full upon completion of construction projects or some may have 5% to 10% retention money due at the end of warranty period of one to two years and (ii) sale to certain distributors with a maximum credit period of 90 days and interest bearing. The directors of the Company nonetheless review the recoverable amount of each individual debt regularly, to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bills receivables are insignificant because all bills receivables are bank acceptance bills issued by state-owned banks and aged within 180 days at the end of the reporting period.

The credit risk on amounts due from related parties and amounts due from related parties is insignificant after considering the financial strength of these related entities.

The Group has concentration of credit risk on trade receivables from property developers. As at 31 December 2014, approximately 66% (2013: 53%) of the total trade receivables are due from property developers. In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the management nonetheless reviews the recoverable amount of each individual debt regularly. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on the Group's liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS *(continued)*

b. *Financial risk management objectives and policies* (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at 31 December 2014, the Group had available unutilised banking facilities of approximately RMB686,797,000 (2013: RMB426,408,000).

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate	Repayable on demand RMB'000	1 month or less RMB'000	1 month to 3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2014									
Non-derivative financial liabilities									
Trade and other payables	N/A	37,040	373,882	328,757	349,162	—	—	1,088,841	1,088,841
Obligation under a finance lease	6.55%	—	573	1,718	4,581	29,585	—	36,457	30,166
Amounts due to related parties	N/A	12,122	—	—	—	—	—	12,122	12,122
Amounts due non-controlling shareholders of a subsidiary	N/A	1,650	—	—	—	—	—	1,650	1,650
Bank borrowings-variable rate	7.21%	—	600	1,201	1,801	60,907	—	64,509	50,000
Bank borrowings-fixed rate	5.95%	—	88,611	40,314	840	30,019	—	159,784	157,588
		50,812	463,666	371,990	356,384	120,511	—	1,363,363	1,340,367

6. FINANCIAL INSTRUMENTS *(continued)*

b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

	Weighted average interest rate	Repayable on demand RMB'000	1 month or less RMB'000	1 month to 3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2013									
Non-derivative financial liabilities									
Trade and other payables	N/A	65,833	282,257	291,382	336,346	—	—	975,818	975,818
Obligation under a finance lease	6.55%	—	573	1,718	4,581	28,881	7,576	43,329	34,761
Amounts due to related parties	N/A	18,920	—	—	—	—	—	18,920	18,920
Amounts due non-controlling shareholders of a subsidiary	N/A	10,503	—	—	—	—	—	10,503	10,503
Amounts due to shareholders	N/A	8,801	—	—	—	—	—	8,801	8,801
Bank borrowings-variable rate	7.33%	—	1,430	28,689	7,324	93,744	—	131,187	116,992
Bank borrowings-fixed rate	5.98%	—	84,130	20,460	225,012	—	—	329,602	320,967
		104,057	368,390	342,249	573,263	122,625	7,576	1,518,160	1,486,762

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c. Fair value

The short-term investment (note 22) is measured at fair value at the end of each reporting period. The fair value of short-investment was RMB125,993,000 as at 31 December 2014 which is determined with reference to discounted cash flow model, which is based on the expected return of the investment by reference to similar products in the market. The fair value measurement is classified under Level 2 of the fair value hierarchy.

The fair values of financial assets and financial liabilities not measured at fair value on a recurring basis are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in manufacturing and sales of ceramics tile and bathroom products.

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the chief executive) in order to allocate resources to the segment and to assess its performance.

The Group is organised into business units based on their products, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance. The Group's operating and reportable segments under HKFRS 8 are identified as two main operations:

- Ceramic tile products: this segment produces and sells ceramic tile and related products.
- Bathroom products: this segment produces and sells bathroom and related products.

(a) Segment results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2014

	Ceramic tile products RMB'000	Bathroom products RMB'000	Total RMB'000
SEGMENT REVENUE			
External sales	3,347,282	545,819	3,893,101
Inter-segment sales	—	36,431	36,431
Segment revenue	3,347,282	582,250	3,929,532
Eliminations			(36,431)
Group revenue			3,893,101
SEGMENT RESULT	1,352,799	145,001	1,497,800
Eliminations			—
			1,497,800
Unallocated income			195,015
Unallocated expenses			
Other gains and losses			(24,718)
Distribution and selling expenses			(505,723)
Administrative expenses			(281,224)
Share-based payment expenses			(40,323)
Other expenses			(82,344)
Finance costs			(35,924)
Profit before tax			722,559

7. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Segment results *(continued)*

For the year ended 31 December 2014 *(continued)*

Other segment information included in the measurement of segment results:

	Ceramic tile products RMB'000	Bathroom products RMB'000	Total RMB'000
Depreciation	**89,945**	**12,534**	**102,479**
Allowance for obsolete inventories	**4,752**	**(725)**	**4,027**

For the year ended 31 December 2013

	Ceramic tile products RMB'000	Bathroom products RMB'000	Total RMB'000
SEGMENT REVENUE			
External sales	3,020,631	347,588	3,368,219
Inter-segment sales	—	30,878	30,878
Segment revenue	3,020,631	378,466	3,399,097
Eliminations			(30,878)
Group revenue			3,368,219
SEGMENT RESULT	1,155,250	93,201	1,248,451
Eliminations			—
			1,248,451
Unallocated income			82,758
Unallocated expenses			
Other gains and losses			(24,522)
Distribution and selling expenses			(423,965)
Administrative expenses			(215,218)
Share-based payment expenses			(16,971)
Other expenses			(74,352)
Change in fair value of redeemable convertible preferred shares			(35,955)
Finance costs			(38,043)
Profit before tax			502,183

7. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Segment results *(continued)*

For the year ended 31 December 2013 *(continued)*

Other segment information included in the measurement of segment results:

	Ceramic tile products RMB'000	Bathroom products RMB'000	Total RMB'000
Depreciation	87,199	3,614	90,813
Allowance for obsolete inventories	37,636	2,087	39,723

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the gross profit earned by each reportable segment. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

(b) Revenue from major products and services

The following is an analysis of the Group's revenue from its major products:

	2014 **RMB'000**	2013 RMB'000
Unglazed tiles	**1,518,532**	1,541,497
Glazed tiles	**1,828,750**	1,479,134
Bathroom products	**545,819**	347,588
	3,893,101	3,368,219

(c) Geographic information

The Group's operations and non-current assets are all derived and located in the PRC.

	2014 **RMB'000**	2013 RMB'000
Revenue from external customers based on the location of customers:		
PRC	**3,603,868**	3,178,822
The United States of America	**126,973**	67,505
Mexico	**33,944**	29,645
Other countries	**128,316**	92,247
	3,893,101	3,368,219

7. REVENUE AND SEGMENT INFORMATION *(continued)*

(d) Information about major customers

No major customer contributed over 10% of the total revenue of the Group for the year ended 31 December 2013 and 2014.

(e) Segment assets and liabilities

Information of the operating and reportable segments of the Group reported to the chief operating decision maker for the purposes of resource allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

8. OTHER INCOME

	2014	2013
	RMB'000	RMB'000
Bank interest income	**30,476**	11,685
Interest income on credit sales (note i)	**7,692**	5,386
Processing income	**15,019**	9,908
Sales of advertising brochures	**6,838**	3,977
Conference charge	**3,225**	1,631
Government grants (note ii)	**112,802**	44,282
Sales of scrap materials	**136**	1,194
Penalty income from distributor	**13,390**	1,276
Sundry income	**5,437**	3,419
Total	**195,015**	82,758

Notes:

(i) The Group normally requires advance or immediate payment when goods are delivered. Credit sales were granted to distributors on request basis and interests ranging from 8% to 10% per annum were charged in both years.

(ii) The government grants mainly represent incentive subsidies received from PRC government for business development. There are no specific conditions attached to the grants.

9. OTHER GAINS AND LOSSES

	2014 RMB'000	2013 RMB'000
Net loss on disposal of property, plant and equipment	**714**	1,382
Allowance for doubtful receivables	**17,720**	16,889
Net foreign exchange loss	**6,284**	6,251
Total	**24,718**	24,522

10. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**33,647**	35,505
Finance lease	**2,277**	2,538
	35,924	38,043

11. INCOME TAX EXPENSE

	2014	2013
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	**132,856**	143,806
Withholding tax on distribution of profit by PRC subsidiaries	**—**	10,000
(Over) Under provision in respect of prior years	**(515)**	868
	132,341	154,674
Deferred tax (note 29)	**25,731**	2,333
	158,072	157,007

The PRC EIT is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

In accordance with PRC tax (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax rate of 10% is applicable to dividends to "non-resident" investors who do not have an establishment or place of business in the PRC.

Six subsidiaries of the Group, Linzhi Yuhe Commerce and Trading Co., Ltd. ("Linzhi Yuhe"), Duilong Deqing Heying Commerce and Trading Co., Ltd. ("Deqing Heying"), Duilong Deqing Yuwei Commerce and Trading Co., Ltd. ("Deqing Yuwei"), Foshan Dongpeng Sanitary Ware Co., Ltd. ("Dongpeng Sanitary Ware"), Fengcheng Dongpeng Ceramics Co., Ltd. ("Fengcheng Dongpeng") and Lixian Xinpeng Ceramics Co., Ltd. ("Lixian Xinpeng") enjoyed preferential enterprise income tax rates which are lower than the standard tax rate as approved by the relevant tax authorities in the PRC as set out below.

Pursuant to Zang Zheng Fa No. 14 (2011) Notice in relation to Taxation Policies in support of enterprises located in Tibet (《西藏自治區人民政府關於我區企業所得稅稅率問題的通知》) promulgated by the People's Government of Tibet autonomous region, Linzhi Yuhe, Deqing Heying and Deqing Yuwei, which are registered and located in Tibet, can enjoy a preferential enterprise income tax rate of 15% from 2013 to 2020.

11. INCOME TAX EXPENSE *(continued)*

Dongpeng Sanitary Ware was accredited as a "High and New Technology Enterprise" by relevant authorities in 2012 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% preferential enterprise income tax rate from 2012 to 2014.

Fengcheng Dongpeng was accredited as a "High and New Technology Enterprise" by relevant authorities in 2013 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% preferential enterprise income tax rate from 2013 to 2015.

Lixian Xinpeng was accredited as a "High and New Technology Enterprise" by relevant authorities in 2014 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% preferential enterprise income tax rate from 2014 to 2016.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit and loss and other comprehensive income as follows:

	2014 **RMB'000**	2013 RMB'000
Profit before tax	**722,559**	502,183
Tax at the applicable income tax rate of 25%	**180,640**	125,546
Effect of preferential tax rates granted to certain subsidiaries	**(57,259)**	(31,277)
Tax effect of expenses not deductible for tax purpose (Note 1)	**10,916**	19,413
(Over) under provision in respect of prior years	**(515)**	868
Tax effect of tax losses not recognised	**9,956**	3,934
Tax effect of deductible temporary differences not recognised	**1,258**	998
Deferred withholding tax on undistributed profits of PRC subsidiaries (Note 29)	**20,737**	30,140
Deferred withholding tax on distribution of profits of PRC subsidiaries	**—**	10,000
Utilisation of deductible temporary differences previously not recognised	**(851)**	(2,048)
Tax effect of income tax credit granted to subsidiaries for research and development costs	**(6,810)**	(567)
Income tax expense for the year	**158,072**	157,007

Note:

1. The tax effect of expenses not deductible for the year is mainly attributable to the non-deductible staff welfare expenses, share-base payment expenses, listing expenses, change in fair value of redeemable convertible preferred shares and non-deductible cost of damaged products.

12. PROFIT FOR THE YEAR

	2014	2013
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Depreciation for property, plant and equipment	**145,161**	120,553
Amortisation for prepaid lease payments	**8,481**	5,502
Auditors' remuneration	**2,507**	1,997
Listing expenses (included in other expenses)	**—**	32,857
Research and development costs (included in other expenses)	**53,446**	24,077
Cost of inventories recognised as expenses	**2,395,301**	2,119,768
Allowance for obsolete inventories (included in cost of inventories)	**4,027**	39,723
Staff costs:		
Directors' remuneration (note 13)	**15,015**	6,922
Employees' salaries	**461,772**	300,973
Employees' welfare benefits	**28,265**	16,154
Share-based payments to employees	**28,172**	12,147
Employees' retirement benefit schemes contributions	**30,857**	22,937
	564,081	359,133
Operating lease payments in respect of		
– land and buildings	**66,385**	75,560
– plant and machinery	**21,998**	24,124

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of emoluments paid or payable by the Group to the directors of the Company are as follows:

	Directors' fee RMB'000	Salaries and other benefits RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
For the year ended 31 December 2014						
Executive directors:						
He Xinming	158	600	170	10	6,751	7,689
Chen Kunlie	118	417	54	15	2,700	3,304
Bao Jianyong	118	360	54	10	2,700	3,242
Non-executive directors:						
Sun Qian	118	—	—	—	—	118
Su Sen	118	—	—	—	—	118
Sun Limei	118	—	—	—	—	118
Independent non-executive directors:						
Yin Hong	142	—	—	—	—	142
Hsieh H., Lily	142	—	—	—	—	142
Wu Haibing	142	—	—	—	—	142
	1,174	1,377	278	35	12,151	15,015
Chief executive:						
Cai Chuyang	—	480	120	15	5,626	6,241

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

	Directors' fee RMB'000	Salaries and other benefits RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
For the year ended 31 December 2013						
Executive directors:						
He Xinming	60	640	170	19	2,680	3,569
Chen Kunlie	60	426	54	20	1,072	1,632
Bao Jianyong	60	300	54	19	1,072	1,505
Non-executive directors:						
Sun Qian	60	—	—	—	—	60
Su Sen	60	—	—	—	—	60
Sun Limei	60	—	—	—	—	60
Independent non-executive directors:						
Yin Hong	12	—	—	—	—	12
Hsieh H., Lily	12	—	—	—	—	12
Wu Haibing	12	—	—	—	—	12
	396	1,366	278	58	4,824	6,922
Chief executive:						
Cai Chuyang	—	461	120	19	2,233	2,833

No emoluments were paid by the Company to the directors and chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. Neither any of the directors nor chief executive of the Company has waived any emoluments during both years.

14. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three (2013: three) directors, details of whose emoluments are included in note 13. The emoluments of the remaining two (2013: two) highest paid individuals are as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries and other benefits	**960**	812
Bonus	**174**	174
Retirement benefits scheme contribution	**31**	24
Share-based payments	**10,351**	4,109
	11,516	5,119

Their emoluments were within the following bands:

	2014 **No. of employees**	2013 No. of employees
HK$2,500,001 to HK$3,000,000	**—**	1
HK$3,000,001 to HK$4,000,000	**—**	1
HK$4,000,001 to HK$7,000,000	**1**	—
HK$7,000,001 to HK$8,000,000	**1**	—

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during both years.

15. DIVIDENDS

	2014 **RMB'000**	2013 RMB'000
Dividend recognised as distributions during the year:		
2013 final, paid-HK$0.07 per share	**69,979**	—
In November 2013, dividends paid to the then holders of preferred shares and ordinary shares before its initial public offering of ordinary shares	**—**	90,000
	69,979	90,000

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2014 of HK$0.17 per ordinary share to the shareholders of the Company (the "Shareholders") (2013: HK$0.07 per share in respect of the year ended 31 December 2013) has been proposed by the directors and is subject to approval by shareholders in the forthcoming annual general meeting.

16. EARNINGS PER SHARE

	2014	2013
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company	**563,711**	339,498
Less: dividend paid to preferred shareholders	**—**	(8,801)
Earnings for the purpose of basic earnings per share and diluted earnings per share	**563,711**	330,697
Number of shares:	**'000**	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,253,102**	920,912
Dilutive potential ordinary shares relating to share options	**19,676**	3,860
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,272,778**	924,772

The computation of diluted earnings per share for the year ended 31 December 2013 does not assume the exercise of the over-allotment options granted pursuant to the initial public offering of the Company's shares because the exercise price of the over-allotment options is higher than the average market price during the exercise period.

The computation of diluted earnings per share for the year ended 31 December 2013 does not assume the conversion of the Company's outstanding redeemable convertible preferred shares since their exercise would result in an increase in earnings per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Motor vehicles	Equipment and machinery	Leasehold im-provement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 31 December 2012	300,702	13,945	12,269	843,928	47,334	56,751	1,274,929
Additions	65,842	5,753	5,525	44,330	8,899	158,801	289,150
Disposals	(231)	(684)	—	(20,360)	(252)	—	(21,527)
Transfer from construction in progress	39,911	2,170	—	15,444	—	(57,525)	—
Acquisition of subsidiaries (note 37)	20,717	2,630	995	11,629	2,259	16,971	55,201
Disposal of a subsidiary (note 38)	—	(209)	—	—	(1,889)	—	(2,098)
At 31 December 2013	426,941	23,605	18,789	894,971	56,351	174,998	1,595,655
Additions	**66,741**	**9,312**	**10,459**	**111,439**	**11,416**	**190,913**	**400,280**
Disposals	**(178)**	**(610)**	**(1,496)**	**(33,532)**	**—**	**—**	**(35,816)**
Acquisition of subsidiaries (note 37)	**—**	**142**	**180**	**101**	**565**	**—**	**988**
Transfer from construction in progress	**127,638**	**94**	**—**	**169,309**	**—**	**(297,041)**	**—**
At 31 December 2014	**621,142**	**32,543**	**27,932**	**1,142,288**	**68,332**	**68,870**	**1,961,107**
DEPRECIATION							
At 31 December 2012	(38,542)	(5,108)	(6,044)	(317,239)	(29,657)	—	(396,590)
Provided for the year	(17,153)	(5,282)	(2,572)	(79,976)	(15,570)	—	(120,553)
Eliminated on disposals	56	396	—	14,033	26	—	14,511
Disposal of a subsidiary (note 38)	—	77	—	—	1,849	—	1,926
At 31 December 2013	(55,639)	(9,917)	(8,616)	(383,182)	(43,352)	—	(500,706)
Provided for the year	**(28,005)**	**(7,527)**	**(3,584)**	**(93,526)**	**(12,519)**	**—**	**(145,161)**
Eliminated on disposals	**15**	**355**	**925**	**28,589**	**—**	**—**	**29,884**
At 31 December 2014	**(83,629)**	**(17,089)**	**(11,275)**	**(448,119)**	**(55,871)**	**—**	**(615,983)**
CARRYING AMOUNTS							
At 31 December 2014	**537,513**	**15,454**	**16,657**	**694,169**	**12,461**	**68,870**	**1,345,124**
At 31 December 2013	371,302	13,688	10,173	511,789	12,999	174,998	1,094,949

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The buildings are situated on land held under medium term leases in the PRC.

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis, taking into account their estimated residual value, over their estimated useful lives as follows:

Buildings	10 ~ 20 years
Furniture and fixtures	3 ~ 5 years
Motor vehicles	4 ~ 5 years
Equipment and machinery	10 years
Leasehold improvement	over the shorter of the term of the lease, or 5 years

The Group has pledged certain buildings, equipment and machinery with a carrying value of RMB119,521,000 (2013: RMB181,412,000) to secure general banking facilities granted to the Group.

Details of property, plant and equipment being pledged are set out in note 32.

Buildings with carrying amount of RMB289,319,000 as at 31 December 2014 (2013: RMB137,470,000), are without property certificates. The Group is in the process of obtaining the property certificates.

The carrying amount of plant and machinery included amounts of RMB22,939,000 (2013: RMB27,854,000) in respect of assets held under a finance lease.

18. PREPAID LEASE PAYMENTS

	2014 **RMB'000**	2013 RMB'000
Leasehold land in the PRC under medium-term lease	**383,018**	389,351
Analysed for reporting purposes as:		
Non-current asset	**374,310**	380,870
Current asset	**8,708**	8,481
	383,018	389,351

The Group has pledged certain prepaid lease payments with a carrying amount of RMB143,182,000 (2013: RMB136,109,000), to secure general banking facilities granted to the Group.

Details of prepaid lease payments being pledged are set out in note 32.

As at 31 December 2014, parcels of land with carrying amount of RMB576,000 (2013: RMB37,117,000) is still in the process of obtaining the land use right certificate.

19. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests at 31 December 2013 and 2014. In 2013, Qingyuan Nafuna, Fengcheng Dongpeng ,Lixian Xinpeng and Zibo Kapuer (as defined in note 41) became wholly owned subsidiaries of the Group under Corporate Reorganisation completed in January 2013. In July 2013, the Group's interest in Qingyuan Nafuna reduced to 90.35% after capital injection made by Foshan Yuanheng Investment. All non-wholly owned subsidiaries' place of incorporation and principal place of business are located in PRC:

	Proportion of ownership interests and voting rights held by non-controlling interests		**Profit allocated to non-controlling interests**		**Accumulated non-controlling interests**	
Name of subsidiary	**2014**	2013	**2014**	2013	**2014**	2013
			RMB'000	RMB'000	**RMB'000**	RMB'000
Qingyuan Nafuna	**9.65%**	9.65%	**2,050**	5,789	**79,092**	77,042
Individually immaterial subsidiaries					**28,849**	23,836
Total non-controlling interests					**107,941**	100,878

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

19. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(continued)*

Qingyuan Nafuna

	31/12/2014 **RMB'000**	31/12/2013 RMB'000
Current assets	**382,162**	568,608
Non-current assets	**786,362**	672,443
Current liabilities	**(349,104)**	(442,868)
Non-current liabilities	**—**	—
Total equity	**819,420**	798,183

	2014 **RMB'000**	2013 RMB'000
Revenue	**884,379**	973,824
Expenses	**(863,143)**	(887,913)
Profit and total comprehensive income for the year	**21,236**	85,911
Net cash inflow (outflow) from operating activities	**119,288**	(49,666)
Net cash outflow from investing activities	**(146,157)**	(30,660)
Net cash inflow from financing activities	**11,147**	85,533
Net cash (outflow) inflow	**(15,722)**	5,207

During the year ended 31 December 2014, dividend amounting to Nil (2013: RMB8,553,000) was declared but remained unpaid.

In January 2013, as part of the Corporate Reorganisation, several non-wholly owned subsidiaries were transferred to the then holding company of the Group. The difference between the consideration and the carrying amount of non-controlling interest had been recognised in other reserve as deemed distribution paid to owners under Corporate Reorganisation. In July 2013, Foshan Yuanheng Investment, a company controlled by certain members of the Controlling Shareholders, made capital injection totalling RMB850,000,000 in Foshan Dongpeng Development and Qingyuan Nafuna, and acquired 7.69% and 9.65% equity interest therein respectively. The difference of RMB745,918,000 between the increase in the non-controlling interests and the consideration has been credited to other reserve.

20. INVENTORIES

	2014 RMB'000	2013 RMB'000
Raw materials	**219,887**	182,715
Work in progress	**56,837**	28,900
Finished goods	**707,247**	658,392
	983,971	870,007

As at 31 December 2014, the allowance for obsolete inventories is RMB97,409,000 (2013: RMB93,382,000).

21. TRADE AND OTHER RECEIVABLES

	2014 RMB'000	2013 RMB'000
Trade receivables	**332,438**	326,031
Less: allowance for doubtful debts	**(39,875)**	(30,760)
	292,563	295,271
Advances to suppliers	**28,498**	22,623
Deposits to suppliers	**16,285**	15,537
Bills receivables	**206,150**	149,707
Other receivables	**18,188**	13,213
Less: allowance for doubtful debts	**(8,057)**	—
Other tax recoverable	**6,737**	4,357
Prepaid rentals	**9,300**	9,948
Other receivables from property developers	**6,878**	4,886
Value-added tax recoverable	**71,536**	43,237
Total trade and other receivables	**648,078**	558,779

21. TRADE AND OTHER RECEIVABLES *(continued)*

The Group normally requires advance or immediate payment when goods are delivered except for (i) sales to certain property developers which are allowed a credit period of 90 days to 180 days or some may be allowed to repay in full upon completion of construction projects or some may have 5% to 10% retention money due at the end of warranty period of one to two years and (ii) sale to certain distributors with a maximum credit period of 90 days and interest bearing. As at 31 December 2014, the retention money held by the property developers amounted to RMB19,816,000 (2013: RMB14,749,400). The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the respective revenue recognition date:

	2014	2013
	RMB'000	RMB'000
0 - 30 days	**124,380**	152,032
31 - 90 days	**75,197**	56,416
91 - 180 days	**37,610**	34,770
181 - 365 days	**23,261**	23,256
Over 1 year	**32,115**	28,797
	292,563	295,271

The bills receivables are aged within 180 days and have not yet matured at the year end of December 2014 and 2013 respectively.

The other receivables are unsecured, non-interest bearing and repayable on demand or within one year.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for each customer.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB83,033,000 (2013: RMB103,831,000) which are past due as at 31 December 2014 for which the Group has not provided for impairment loss as the management does not expect any losses from these customers with good reputation. The Group does not hold any collateral over these balances.

21. TRADE AND OTHER RECEIVABLES *(continued)*

Aging of trade receivables which are past due but not impaired based on payment due dates

	2014	2013
	RMB'000	RMB'000
Overdue by:		
0 - 90 days	**51,775**	55,791
91 - 275 days	**15,465**	32,370
Over 275 days	**15,793**	15,670
Total	**83,033**	103,831

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Movement in the allowance for doubtful debts

	2014	2013
	RMB'000	RMB'000
At beginning of the year	**30,760**	13,871
Impairment losses recognised	**17,720**	16,889
Amounts written off as uncollectible	**(548)**	—
At end of the year	**47,932**	30,760

The Group first assesses whether objective evidence of impairment exists for trade and other receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed trade and other receivables, whether significant or not, it includes the trade and other receivables in a group with similar credit risk characteristics including industry, geographical location, past-due status and other relevant factors and collectively assesses them for impairment. Trade and other receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

21. TRADE AND OTHER RECEIVABLES *(continued)*

Movement in the allowance for doubtful debts (continued)

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB39,875,000 (2013: RMB30,760,000) as at 31 December 2014, which are either overdue for a long period of time or the customers are in severe financial difficulties in repaying the outstanding balances. The Group does not hold any collateral over these balances.

The following were the Group's bills receivables at the end of each reporting period that have been endorsed to the Group's creditors for settlement of payables of the same amount or discounted to banks on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the carrying amount of the bills receivables and the related trade payables and has recognised the cash received from banks on the transfer as a secured borrowing (note 27).

These bills receivable are carried at amortised cost in the Group's consolidated statements of financial position.

	2014 **RMB'000**	2013 RMB'000
Carrying amount of bills receivables		
– external customers	**83,644**	117,361
– intra-group customers	**16,800**	—
Carrying amount of trade payables	**(64,856)**	(69,394)
Carrying amount of bank borrowings	**(35,588)**	(47,967)

22. SHORT-TERM INVESTMENTS

As at 31 December 2014, the Group's short-term investments mainly represent financial products issued by banks in the PRC, with an expected but not guaranteed return of 2.0-3.0% per annum, depending on the market prices of its underlying financial instruments, mainly comprised of bonds and debentures. The financial products are measured at fair value at the end of the reporting period. The directors of the Company consider the fair value of the financial products approximate to their principal amount as at 31 December 2014. No fair value change is recognised during the year ended 31 December 2014. The short-term investments amounting to RMB125,893,000 were redeemed in January 2015 at the principal amount together with return which approximated the expected return and the remaining amount has not been redeemed yet.

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances carry interest at market rates ranging from 0.35% (2013: 0.35% to 0.38%) per annum. The pledged bank deposits carry interest rates ranging from 0.35% (2013: 0.35% to 3.05%) per annum.

Pledged bank deposits amounting to RMB20,560,000 (2013: RMB33,000) have been pledged to secure bills payable repayable within six months. Pledged bank deposits amounting to RMB16,525,000 (2013: RMB12,295,000) as at 31 December 2014 have been pledged to secure deposits for purchase of goods and services.

24. TRADE AND OTHER PAYABLES

	2014 **RMB'000**	2013 RMB'000
Trade payables	**644,404**	686,745
Bills payable	**16,980**	8,070
Other payables	**37,052**	34,974
Other tax payables	**61,389**	63,233
Payroll and welfare payables	**56,763**	43,314
Advances from distributors	**119,476**	131,010
Deposits from distributors	**85,814**	68,139
Deferred income	**30,039**	25,158
Payables for acquisition for property, plant and equipment	**198,921**	93,988
Accrued expenses	**105,670**	83,902
	1,356,508	1,238,533

The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2014 **RMB'000**	2013 RMB'000
0 - 30 days	**377,742**	337,429
31 - 90 days	**216,216**	218,390
91 - 180 days	**41,890**	109,982
181 - 365 days	**1,857**	10,579
Over 1 year	**6,699**	10,365
	644,404	686,745

The normal credit period on purchases of materials is 90 days to 180 days. The Group has financial risk management policies in place to monitor the settlement of payables.

Bills payable at 31 December 2014 and 2013 were aged within 180 days.

25. OBLIGATION UNDER A FINANCE LEASE

	2014 RMB'000	2013 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**4,896**	4,595
Non-current liabilities	**25,270**	30,166
	30,166	34,761

It is the Group's policy to lease certain of its equipment and machinery under a finance lease. The lease term is 10 years. Interest rate underlying the obligation under finance lease is fixed at 6.55% per annum at the contract date. The lease is on a fixed repayment basis and no arrangement is entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2014 **RMB'000**	2013 RMB'000	**2014** **RMB'000**	2013 RMB'000
Amounts payable under finance lease:				
Within one year	**6,872**	6,872	**4,896**	4,595
In more than one year but not exceeding two years	**7,216**	6,872	**5,561**	4,896
In more than two years but not exceeding five years	**22,369**	22,009	**19,709**	18,160
More than five years	**—**	7,576	**—**	7,110
	36,457	43,329	**30,166**	34,761
Less: future finance charges	**(6,291)**	(8,568)	**N/A**	N/A
Present value of lease obligation	**30,166**	34,761	**30,166**	34,761
Less: amounts due for settlement within 12 months (shown under current liabilities)			**(4,896)**	(4,595)
Amounts due for settlement after 12 months			**25,270**	30,166

The Group's obligation under a finance lease is secured by the lessor's charge over the leased assets.

26. AMOUNTS DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS

Name of related party	Relationship	Amounts due from related companies 2014 RMB'000	2013 RMB'000
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of Controlling Shareholders	**78**	86

At 31 December 2014, the trade portion of amounts due from related parties amounting to RMB78,000 (2013: RMB86,000).

The normal credit period on trade with related parties is 180 days. The following is an aged analysis of the trade portion of amounts due from related parties presented based on the invoice date, which approximated the respective revenue recognition date at the end of the reporting period:

	2014 RMB'000	2013 RMB'000
0 - 30 days	**78**	86

Aging of trade portion of amounts due from related parties are all within credit term.

The Group has not provided for impairment loss on the amounts due from related parties which are past due after considering the financial strength of these related entities.

26. AMOUNTS DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS *(continued)*

The following are the maximum amounts outstanding on the amounts due from related parties during the year:

Name of related party	Relationship	Maximum amounts outstanding due from related companies For the year ended 2014 RMB'000	2013 RMB'000
廣東東鵬陶瓷股份有限公司 Guangdong Dongpeng Ceramics	Controlled by Controlling Shareholders	—	22,491
東鵬陶瓷 (清遠) 有限公司 Qingyuan Dongpeng	Controlled by certain members of Controlling Shareholders	—	31,741
佛山東鵬潔具股份有限公司 Dongpeng Sanitary Ware*	Controlled by certain members of Controlling Shareholders	—	1,544
清遠東鵬衛浴有限公司 Qingyuan Dongpeng Bathroom Products Co., Ltd	Controlled by certain members of Controlling Shareholders	—	381
湖南金鵬新型建材有限公司 Hunan Jinpeng New Building Materials Co., Ltd	Controlled by certain members of Controlling Shareholders	—	30,374
佛山市大唐合盛陶瓷有限公司 Foshan Datanghesheng Ceramics Co., Ltd.	Controlled by certain members of Controlling Shareholders	—	9,842
佛山市東鵬實業投資有限公司 Foshan Dongpeng investment Co., Ltd.	Controlled by certain members of Controlling Shareholders	—	2
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of Controlling Shareholders	**86**	86

* Dongpeng Sanitary Ware Group was acquired by the Group on 31 May 2013.

26. AMOUNTS DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS *(continued)*

Name of related party	Relationship	Amounts due to related companies At 31 December 2014 RMB'000	2013 RMB'000
廣東東鵬陶瓷股份有限公司 Guangdong Dongpeng Ceramics	Controlled by Controlling Shareholders	**114**	498
山東東鵬陶瓷有限公司 Shandong Dongpeng Ceramics Co., Ltd.	Controlled by certain members of Controlling Shareholders	**—**	242
東鵬陶瓷(清遠)有限公司 Qingyuan Dongpeng	Controlled by certain members of Controlling Shareholders	**9,910**	10,085
清遠東鵬衛浴有限公司 Qingyuan Dongpeng Bathroom Products Co., Ltd	Controlled by certain members of Controlling Shareholders	**—**	7,688
香港佛來盈發展有限公司 Hong Kong Flying Development Ltd. ("HK Flying")	Controlled by Controlling Shareholders	**4**	4
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of Controlling Shareholders	**176**	143
山東嘉麗雅陶瓷股份有限公司 Shandong Jialiya Ceramics Co., Ltd.	Controlled by certain members of Controlling Shareholders	**1,918**	260
		12,122	18,920

As at 31 December 2014, the trade portion of amounts due to related parties amounting to RMB2,212,000 (2013: RMB18,678,000). There is no specific credit term granted by the related parties. The non-trade balances are unsecured, interest-free and repayable on demand.

26. AMOUNTS DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS *(continued)*

The following is an aged analysis of trade portion of amounts due to related parties presented based on the invoice date at the end of the reporting period:

	2014	2013
	RMB'000	RMB'000
0 - 30 days	**1,290**	8,593
31 - 90 days	**918**	2,276
91 - 180 days	**—**	3,130
181 - 365 days	**—**	4,679
1 - 2 years	**4**	—
	2,212	18,678

	2014	2013
	RMB'000	RMB'000
Amounts due from shareholders	**11**	11
Amounts due to shareholders	**—**	8,801
Amounts due to non-controlling shareholders of subsidiaries	**1,650**	10,503

These balances are non-trade, unsecured, interest-free and repayable on demand.

27. BANK BORROWINGS

	2014	2013
	RMB'000	RMB'000
Bank borrowings, secured	**207,588**	437,959
Carrying amount repayable:		
Within one year	**157,588**	350,967
More than one year, but not exceeding two years	**—**	60,992
More than two years but not more than five years	**50,000**	26,000
	207,588	437,959
Less: Amount due within one year shown under current liabilities	**(157,588)**	(350,967)
	50,000	86,992

27. BANK BORROWINGS *(continued)*

The range of the effective interest rates on the Group's borrowings is as follows:

	2014 **RMB'000**	2013 RMB'000
Fixed-rate borrowings	**5.6% - 6.9%**	5.88% - 6%
Variable-rate borrowings	**7.21%**	6.88% - 7.4%

At 31 December 2014, variable-rate borrowings amounted to RMB50,000,000 (2013: RMB116,992,000). The borrowings bear interest rates based on benchmark interest rate from the People's Bank of China ("Benchmark Rate") plus, if applicable, a premium and expose the Group to cash flow interest rate risk. At 31 December 2014, fixed-rate borrowings amounted to RMB157,588,000 (2013: RMB320,967,000).

As at 31 December 2014, secured bank borrowings include the discounting of bills receivables from external trade customers amounted to RMB35,588,000 (2013: RMB47,967,000) to banks with recourse.

All bank borrowings are denominated in RMB.

Bank borrowings at the end of each reporting period were secured by the pledge of assets and guarantees as set out in notes 32 and 36.

28. REDEEMABLE CONVERTIBLE PREFERRED SHARES

On 21 June 2013, the Group entered into a shareholders' agreement with independent investors ("Shareholders' Agreement") and issued 195,105,600 shares of series A convertible preferred shares ("Series A Shares") with a consideration of US$30,000,000 (approximately RMB185,031,000) ("Consideration").

The key terms related to the Series A Shares are as follows:

Conversion:

The Series A Shares are convertible into ordinary shares at any time at the option of the holders. The conversion price on which each Series A Share is convertible into ordinary shares of the Company ("Conversion Price") shall initially be the preferred shares issue price (RMB0.9475) and is subject to adjustments as detailed below. The number of ordinary shares to be converted is determined by dividing the issue price by the Conversion Price at the time in effect which means one Series A Share is convertible to one ordinary share before any potential adjustments set out below.

Additionally each Series A Share shall automatically be converted into ordinary shares, at applicable conversion price upon (i) the closing of a qualified initial public offering ("Qualified IPO"), or (ii) the election of holders of at least 60% of the then outstanding Series A Shares.

28. REDEEMABLE CONVERTIBLE PREFERRED SHARES *(continued)*

Conversion price adjustments:

Issuance of additional shares below the Conversion Price in effect immediately prior to such issue: The Conversion Price shall be reduced concurrently with such issuance. In November 2013, Series A Shareholders signed a waiver letter (the "Waiver") to the Company to waive such term.

Share splits and subdivision: The Conversion Price then in effect shall be proportionately decreased concurrently with the effect of such subdivision.

Share combination and consolidation: The Conversion Price shall be proportionately increased concurrently with the effect of such combination or consolidation.

Redemption Terms:

If no Qualified IPO has occurred and the Series A Shares have not been converted into ordinary shares by 13 August 2015, within 12 months commencing from 13 August 2015, the Series A shareholders, acting as a whole, shall have the right to require the Company to redeem all but not less than all the Series A Shares then held by the Series A shareholders (the "Redemption Shares") at a price equal to the sum of (A) total subscription price, plus (B) all declared but unpaid dividends on such Redemption Shares, if any, plus (C) US$4,225,000, plus (D) a 5% interest per annum on the total subscription price for the period from the date hereof until the date on which the Redemption Shares are redeemed in full.

It was also agreed in the Waiver that the exchange rate for converting US dollar to Renminbi is fixed at US dollar 1.00 to RMB6.12 at any time when the conversion option is exercised or the Series A Shares are redeemed.

Dividends:

Any dividend payable by the Company shall be paid on a pro rata basis to all ordinary shares and all Series A Shares (on an as-converted basis). Series A shareholders shall also be entitled to receive any non-cash dividends declared by the Company's board on an as converted basis.

28. REDEEMABLE CONVERTIBLE PREFERRED SHARES *(continued)*

Liquidation preference:

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or any of the following deemed liquidation events of (a) the acquisition of the Company or its affiliate by any entity by means of any transaction or series of related transactions that results in transfer of more than fifty percent of more of the outstanding voting power of the Company or its controlling affiliate such that its existing shareholders do not retain a majority of the voting power in the surviving entity, (b) a sale of all or substantially all of the assets of the Company or its controlling affiliate, or (c) the exclusive licensing of substantially all of the Company's intellectual property, the assets of the Company available for distribution to the shareholders shall be distributed ratably among all shareholders on an as-converted basis in proportion to the number of outstanding shares held by them.

Pursuant to the resolutions in writing passed by all the holders of ordinary shares and Series A Shares on 5 November 2013, every 2 existing issued and unissued ordinary shares of a par value of US$0.000001 each were consolidated into 1 ordinary share of a par value of US$0.000002 and every 2 existing issued and unissued Series A Shares of a par value of US$0.000001 each were consolidated into 1 Series A Share of par value US$0.000002.

The Series A Shares contain two components: a liability component and a conversion option component.

The conversion option component is classified as an embedded derivative as it will be settled other than by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments.

The Group has elected to designate the Series A Shares with embedded derivatives as financial liabilities at FVTPL on initial recognition. Subsequent to initial recognition, the entire Series A Shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. During the year ended 31 December 2013, a loss of RMB35,955,000 arising from changes in fair value of the Series A Shares was recognised in the consolidated statement of profit or loss and other comprehensive income. At 9 December 2013, the Series A Shares have been converted into ordinary shares upon the closing of initial public offering of ordinary shares.

The fair value of the Series A Shares which is categorised as Level 3 fair value hierarchy is equal to the summation of the fair value of the liability component and conversion option component calculated using discounted cash flows and Binomial Opinion Pricing Model, respectively.

28. REDEEMABLE CONVERTIBLE PREFERRED SHARES *(continued)*

Liquidation preference: (continued)

The inputs used for the calculation of the fair value of Series A Shares on the date when the Waiver became effective are as follows:

Share price (after share consolidation)	2.2761
Conversion price (after share consolidation)	2.0174
Risk-free rate	0.02%
Dividend yield	0.00%
Volatility	29.27%
Discount rate	9.50%

The share price is estimated by reference to the equity value of the Group which is determined based on discounted cash flow method, which captures the present value of the expected future economic benefits to be derived from the Company based on a discount rate of 19.00%. The discount rate represents the weighted average cost of capital, which is determined based on the Capital Asset Pricing Model and the cost of debt. The valuation of share price also takes into account the discount for lack of marketability of 3.00%, determined by reference to Black-Scholes put option model.

Risk-free interest rate is estimated based on the market yield of China International Government Bond with similar maturity as of the valuation date.

The volatility of the underlying shares during the life of the options was estimated based on average historical volatility of comparable companies for the year before the valuation date with lengths equal to the expected terms of the options.The dividend yield was estimated by the Group based on its expected annual dividend of the Series A Shares divided by the fair values of the equity of the Group.

29. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the year:

Deferred tax assets	Impairment on inventories and receivables RMB'000	Tax losses RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2013	15,507	11,297	8,090	34,894
Acquisition of subsidiaries (note 37)	1,753	—	—	1,753
Credit (charge) to profit or loss	14,264	15,139	(2,999)	26,404
At 31 December 2013	31,524	26,436	5,091	63,051
Credit (charge) to profit or loss	**2,156**	**(10,383)**	**1,907**	**(6,320)**
At 31 December 2014	**33,680**	**16,053**	**6,998**	**56,731**

Deferred tax liabilities	Fair value acquisition of subsidiaries RMB'000	Accelerated tax depreciation RMB'000	Undistributed profits of subsidiaries RMB'000	Total RMB'000
At 1 January 2013	—	(2,777)	—	(2,777)
Addition on acquisition of subsidiaries (note 37)	(5,813)	—	—	(5,813)
Credit (charge) to profit or loss	767	636	(30,140)	(28,737)
At 31 December 2013	(5,046)	(2,141)	(30,140)	(37,327)
Credit (charge) to profit or loss	**128**	**1,198**	**(20,737)**	**(19,411)**
At 31 December 2014	**(4,918)**	**(943)**	**(50,877)**	**(56,738)**

29. DEFERRED TAXATION *(continued)*

The Group is not subject to PRC dividend withholding tax on the dividends paid prior to the completion of the Corporate Reorganization. Upon the completion of the Corporate Reorganisation, Dongpeng HK (as defined in note 41) became a group entity and the immediate holding company of Foshan Hua Sheng Chang (as defined in note 41). Under the EIT Law of PRC, withholding tax of 10% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of the PRC subsidiaries amounting to RMB483,093,000 (2013: RMB167,157,000) at 31 December 2014 as the Group is able to control the timing of the reversal of the temporary difference and the directors of the Company have resolved that such profits are retained for business development purposes and shall not be subject to declaration of dividend. Accordingly, it is probable that the temporary differences will not reverse in the foreseeable future. Deferred taxation has been provided for in respect of temporary differences of accumulated profits of the PRC subsidiaries in full other than described above.

At the end of each reporting period, the Group has the following unrecognised unused tax losses:

	2014 **RMB'000**	2013 RMB'000
Unused tax losses	**63,235**	23,409

No deferred tax asset has been recognised on these tax losses due to the unpredictability of future profit streams. The expiry dates of the above unrecognised tax losses are as follows:

	2014 **RMB'000**	2013 RMB'000
Expiry date		
31 December 2016	**2,171**	2,171
31 December 2017	**5,504**	5,504
31 December 2018	**15,734**	15,734
31 December 2019	**39,826**	—
Total	**63,235**	23,409

Other than the above amounts, other unrecognised deductible temporary differences amounting to approximately RMB27,150,000 (2013: RMB25,523,000) as at 31 December 2014 mainly represent certain accrued rental expenses, accrued employees' and directors' emoluments. Due to the uncertainty on the availability of future profits, deferred tax assets are not recognised on these temporary differences. The Group had no other significant unrecognised deferred taxation.

30. SHARE/PAID-IN CAPITAL

The paid-in capital in the consolidated statement of financial position as at 31 December 2014 represented the aggregate of paid-in capital of subsidiaries comprising the Group which is attributable to Controlling Shareholders and the share capital of the Company. Particulars of the share capital of the Company are as follows:

	Notes	**Number of shares**	**Amount in US$**
Ordinary shares			
Authorised:			
At 1 January 2013		49,700,000,000	49,700
Share consolidated on 5 November 2013	(iii)	(24,850,000,000)	—
At 31 December 2013 and 31 December 2014 at US$0.000002 each		24,850,000,000	49,700
Issued:			
At 1 January 2013 at US$0.000001 each	(i)	1,800,000,000	1,800
Shares consolidated on 5 November 2013	(iii)	(900,000,000)	—
Conversion of Series A Shares	(ii)	97,552,800	195
Issuance of new shares upon initial public offering	(iv)	249,400,000	499
31 December 2013 at US$0.000002 each		1,246,952,800	2,494
		Equivalent to	RMB15,000
Issue of new shares on 25 June 2014 pursuant to the exercise of share options under Pre-IPO Share Option Scheme adopted on 31 October 2013 by directors		3,375,000	7
Issue of new shares on 25 June 2014 pursuant to the exercise of share options under Pre-IPO Share Option Scheme adopted on 31 October 2013 by employees		8,500,000	17
31 December 2014 at US$0.000002 each		1,258,827,800	2,518
		Equivalent to	RMB15,000

(i) On 12 March 2012, 1,800,000,000 shares were allotted and issued to its shareholders at par. These amounts had not been received from its shareholders at 31 December 2013 and 31 December 2014.

30. SHARE/PAID-IN CAPITAL *(continued)*

(ii) Pursuant to the resolutions in writing passed by the then shareholders of the Company on 31 October 2012, the authorised share capital of the Company was altered to US$50,000 divided into 49,700,000,000 ordinary shares of a par value of US$0.000001 each and 300,000,000 Series A Shares of a par value of US$0.000001 each. 195,105,600 Series A shares were issued on 21 June 2013 (see note 28). Pursuant to Series A Shares Agreement, the Series A Shares were automatically converted into ordinary shares upon a qualified initial public offering of ordinary shares with details set out in note 28.

(iii) Pursuant to the resolutions in writing passed by all the holders of ordinary shares and Series A Shares on 5 November 2013, every 2 existing issued and unissued ordinary shares of a par value of US$0.000001 each were consolidated into 1 ordinary share of a par value of US$0.000002, and every 2 existing issued and unissued Series A Shares of a par value of US$0.000001 each were consolidated into 1 Series A Share of par value of US$0.000002, such that after the consolidation, the authorised share capital of the Company became US$50,000 divided into 24,850,000,000 ordinary shares of a par value of US$0.000002 each and 150,000,000 Series A Shares of a par value of US$0.000002 each.

(iv) On 9 December 2013, the Company issued 249,400,000 shares of a par value of US$0.000002 each, at HK$2.94 each per share by way of public offering for a total gross proceeds of RMB578,038,000 and the Company's shares became listed on the Main Board of the Stock Exchange.

31. SHARE OPTION SCHEMES

(a) *Pre-IPO share option scheme*

Pursuant to a resolution passed on 31 October 2013, the Company offered to grant the Options which entitle the holders thereof to subscribe for a total of 47,500,000 Shares of the Company to the Directors and Employees of the Group subject to acceptance of the grantees (the "Grantees"), under the Scheme, the Options would expire on 31 October 2023.

Details of specific categories of options as follows:

Category	Date of grant	Exercisable period	Vesting period	Exercise price
Directors	31/10/2013	1/4/2014 to 30/10/2023	31/10/2013 to 1/4/2014	HK$0.01
	31/10/2013	1/4/2015 to 30/10/2023	31/10/2013 to 1/4/2015	HK$0.01
	31/10/2013	1/4/2016 to 30/10/2023	31/10/2013 to 1/4/2016	HK$0.01
	31/10/2013	1/4/2017 to 30/10/2023	31/10/2013 to 1/4/2017	HK$0.01
Senior management	31/10/2013	1/4/2014 to 30/10/2023	31/10/2013 to 1/4/2014	HK$0.01
	31/10/2013	1/4/2015 to 30/10/2023	31/10/2013 to 1/4/2015	HK$0.01
	31/10/2013	1/4/2016 to 30/10/2023	31/10/2013 to 1/4/2016	HK$0.01
	31/10/2013	1/4/2017 to 30/10/2023	31/10/2013 to 1/4/2017	HK$0.01
Employees	31/10/2013	1/4/2014 to 30/10/2023	31/10/2013 to 1/4/2014	HK$0.01
	31/10/2013	1/4/2015 to 30/10/2023	31/10/2013 to 1/4/2015	HK$0.01
	31/10/2013	1/4/2016 to 30/10/2023	31/10/2013 to 1/4/2016	HK$0.01
	31/10/2013	1/4/2017 to 30/10/2023	31/10/2013 to 1/4/2017	HK$0.01

31. SHARE OPTION SCHEMES *(continued)*

(a) Pre-IPO share option scheme *(continued)*

The share options shall be vested in tranches on various vesting dates, provided that for each tranche, the options shall be vested only in the event that the Company meet both the Revenue and Profit for the stipulated financial year stated under the vesting conditions of the Pre-IPO share option scheme, that is in the event that the Company failed to fulfill any of the vesting conditions for vesting any proportion of a option granted under the Pre-IPO share option scheme, such proportion of relevant option due to be vested on the relevant Vesting Date had the conditions been fulfilled, shall neither be vested nor be exercisable on such Vesting Date and shall lapse on automatically on the relevant Vesting Date.

In 2014, the board of directors passed a resolution to modify the vesting conditions as below:

Notwithstanding the failure to meet any particular target for Revenue for a per header tranche under the vesting conditions stipulated in the Pre-IPO share option scheme, if the corresponding Profit for the Year exceeds the stipulated target Profit for the Year by 3%, 50% of the options for the tranche granted to the grantee(s) for the corresponding period shall be vested in relation to him/her on such corresponding Vesting Date. The remaining 50% of the options for the tranche granted to the relevant grantee(s) for corresponding period shall lapse.

This modification will be subject to shareholders' approval at the Extraordinary General Meeting which will be held on 31 March 2015. Since the management of the Group received written support from majority shareholders eligible to vote for the approval of such modification, communication has been made to all share option holders subsequent to the board of directors meeting. In this connection, the above modification is deemed to be approved before year end of 2014.

The table below discloses movement of the Company's share options held by the Group's directors and employees:

	Number of share options
Outstanding as at 1 January 2014	47,500,000
Exercised during the period	11,875,000
Lapsed during the period	7,250,000
Outstanding as at 31 Decmber 2014	28,375,000

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

Share price at grant date (before share consolidation)	HK$1.4358
Exercise price	HK$0.005
Expected volatility	52.1%
Expected life	10 years
Risk-free rate	2.54%
Expected dividend yield	0%
Sub-optimal exercise factor	2.8

31. SHARE OPTION SCHEMES *(continued)*

(a) Pre-IPO share option scheme *(continued)*

Expected volatility was determined by using the annualised standard deviation of historical share price daily movements of selected comparable companies in the same industry. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the share-based payments of RMB40,323,000 and RMB16,971,000 for the year ended 31 December 2014 and 2013 respectively in relation to share options granted by the Company.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in the computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

(b) Share option scheme

The principal terms of the share option scheme, approved by the shareholders' resolution passed on 5 November 2013, are substantially the same as the terms of the Pre-IPO Share Option Scheme and key items are set out below:

(i) The exercise price of the share options shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the exercise price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a Business Day ("Offer Date"), (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) Business Days immediately preceding the date of grant, and (c) the nominal value of a Share; and

(ii) the maximum number of shares in respect of which options may be granted shall not exceed 10% of the total number of shares in issue at the date of listing of the shares of the Company on the Main Board of the Stock Exchange; and

(iii) the maximum entitlement of each eligible participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.

As at 31 December 2014, no options have been granted or agreed to be granted pursuant to the share option scheme. The share option scheme will expire on 5 November 2023.

32. PLEDGE OF ASSETS

The following assets were pledged to secure bank borrowings and banking facilities granted to the Group and related parties at the end of the reporting period:

	2014	2013
	RMB'000	RMB'000
Buildings	**119,521**	130,414
Equipment and machinery	**—**	50,998
Prepaid lease payments	**143,182**	136,109
Notes receivables	**14,920**	—
Pledged bank deposits	**37,085**	12,328
	314,708	329,849

As at 31 December 2014, secured bank borrowings include the discounting of bills receivable from external trade customers amounted to RMB35,588,000 (2013: RMB47,967,000) to banks with recourse.

33. OPERATING LEASES

At 31 December 2014, the Group had future minimum lease payments under non-cancellable operating leases in respect of leased properties and plant and equipment as follows:

	2014	2013
	RMB'000	RMB'000
Within one year	**77,094**	70,656
In the second to fifth years inclusive	**189,909**	118,992
After five years	**36,708**	124,136
	303,711	313,784

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse premises and plant and equipment. Leases are negotiated for terms ranging from one to eighteen years. Rentals are fixed at the date of signing of lease agreements.

34. CAPITAL COMMITMENTS

	2014 RMB'000	2013 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**192,426**	147,045

35. RETIREMENT BENEFIT SHEMES

The employees of the Group's subsidiaries established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

The Group made contributions to the retirement benefits schemes of RMB30,892,000 (2013: RMB22,995,000) during the year.

36. RELATED PARTY TRANSACTIONS

During the year, other than those disclosed in other notes to the consolidated financial statements, the Group entered into the following transactions with related parties:

Name of related party	Relationship	2014 RMB'000	2013 RMB'000
Purchases			
廣東東鵬陶瓷股份有限公司 Guangdong Dongpeng Ceramics	Controlled by Controlling Shareholders	—	3
清遠東鵬衛浴有限公司 Qingyuan Dongpeng Bathroom Products Co., Ltd.	Controlled by certain members of Controlling Shareholders	—	10,731
香港佛來盈發展有限公司 HK Flying	Controlled by Controlling Shareholders	—	4
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of Controlling Shareholders	**1,381**	1,104
佛山東鵬潔具股份有限公司* Foshan Dongpeng Sanitary Ware Ware Co.Ltd	Controlled by Controlling Shareholders	—	4.479

36. RELATED PARTY TRANSACTIONS *(continued)*

Name of related party	Relationship	2014 RMB'000	2013 RMB'000
Sales			
佛山市大唐合盛陶瓷有限公司 Foshan Datanghesheng Ceramics Co., Ltd.	Controlled by certain members of Controlling Shareholders	—	8,632
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of Controlling Shareholders	**626**	353
清遠東鵬衛浴有限公司 Qingyuan Dongpeng Bathroom Products Co., Ltd.	Controlled by certain members of Controlling Shareholders	—	7,376
Rental expenses			
廣東東鵬陶瓷股份有限公司 Guangdong Dongpeng Ceramics	Controlled by Controlling Shareholders	**4,640**	4,650
山東嘉麗雅陶瓷股份有限公司 Shandong Jialiya Ceramics Co.,Ltd.	Controlled by certain members of Controlling Shareholders	**12,000**	12,000
湖南金鵬新型建材有限公司 Hunan Jinpeng New Building Materials Co., Ltd.	Controlled by certain members of Controlling Shareholders	**11,576**	11,025
東鵬陶瓷(清遠)有限公司 Qingyuan Dongpeng	Controlled by certain members of Controlling Shareholders	—	12,518
Purchase of equipment			
山東東鵬陶瓷有限公司 Shandong Dongpeng Ceramics Co., Ltd.	Controlled by certain members of Controlling Shareholders	—	242

* Dongpeng Sanitary Ware Group was acquired by the Group on 31 May 2013.

36. RELATED PARTY TRANSACTIONS *(continued)*

(a) Guangdong Dongpeng Ceramics had provided guarantees to banks in respect of borrowings of the Group amounting to RMB70,000,000 as at 31 December 2013 and such pledge has been released as at 31 December 2014.

Qingyuan Dongpeng had provided guarantees to banks in respect of borrowings of the Group amounting to RMB50,000,000 as at 31 December 2013 and such pledge has been released as at 31 December 2014.

(b) Details of the balances with related parties at the end of the reporting periods are disclosed in the consolidated statement of financial position and the respective notes.

(c) The remuneration paid and payable to key management of the Company which include the directors of the Company and other members of other key management was as follows:

	2014 **RMB'000**	2013 RMB'000
Directors' fee	**394**	180
Salaries and other benefits	**4,536**	3,913
Bonus	**668**	1,048
Retirement benefits scheme contribution	**168**	168
Share-based payments	**40,323**	16,971
	46,089	22,280

(d) The Group had used some relevant trademarks owned by Guangdong Dongpeng Ceramics for free during the years ended 31 December 2014 and 2013.

36. RELATED PARTY TRANSACTIONS *(continued)*

(e) At 31 December, 2014, future maximum lease payments to related parties whereby the Group acts as a lessee is as follows:

	2014 RMB'000	2013 RMB'000
Shandong Jialiya Ceramics Co., Ltd.		
Within one year	**10,440**	10,440
In the second to fifth years inclusive	**—**	10,440
	10,440	20,880

	2014 RMB'000	2013 RMB'000
Hunan Jinpeng New Building Materials Co., Ltd.		
Within one year	**11,576**	11,576
In the second to fifth years inclusive	**49,836**	48,649
After five years	**—**	12,764
	61,412	72,989

	2014 RMB'000	2013 RMB'000
Guangdong Dongpeng Ceramics		
Within one year	**4,650**	4,665
In the second to fifth years inclusive	**4,650**	9,331
	9,300	13,996

37. ACQUISITION OF SUBSIDIARIES

On 11 September 2014, the Group acquired 61.75% equity interest in Guangzhou Yinai Sanitary Products Co., Ltd ("Guangzhou Yinai") from a non-related party for a cash consideration of RMB14,000,000. This acquisition has been accounted for using the acquisition method. Guangzhou Yinai is engaged in the design, customization and sale of mid to high-end bathroom products.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Fair value RMB'000
Property, plant and equipment	988
Other intangible assets	670
Inventories	3,673
Trade and other receivables	2,258
Bank balances and cash	14,643
Trade and other payables	(5,795)
	16,437

The fair value of trade and other receivables at the date of acquisition amounted to RMB2,258,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB2,258,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to Nil. Non-controlling interest are measured at their proportionate share of net assets acquired.

Other Intangible assets represented fair value of trademark on acquisition, 10 years useful live is used in calculation of amortisation.

	RMB'000
Goodwill arising on acquisition:	
Consideration transferred	14,000
Add: non-controlling interest	6,287
Less: net assets acquired	(16,437)
	3,850

	RMB'000
Cash inflow arising on the acquisition:	
Cash consideration	(14,000)
Add: bank balances and cash acquired	14,643
	643

Acquisition-related costs amounting to RMB60,000 have been excluded from the consideration transferred and have been recognised as an expense for the year ended 31 December 2014.

37. ACQUISITION OF SUBSIDIARIES *(continued)*

Goodwill arose on the acquisition of Guangzhou Yinai is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, goodwill has been allocated to Guangzhou Yinai as one cash generating unit ("CGU") which represents the lowest level with the Group at which goodwill is monitored for internal management purposes and is not larger than the operating segment of bathroom product. As at 31 December, 2014, the management of the Group determined that there is no impairment of goodwill.

The recoverable amounts of the CGU is determined from value in use calculations. The key assumptions of the value in use are those regarding the discount rates, growth rates and expected changes to selling price and direct costs during the projection period. The directors estimate discount rates using the pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on the industry growth forecasts. Changes in selling price and direct costs are based on past practices and expectations of future changes in the market.

For the purpose of impairment testing, the Group prepares cash flow projection covering a five-year period. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. The cash flows beyond the five-year period are extrapolated using an estimated growth pattern at growth rates between 5% to 10%, and discount rate of 27%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance and management's expectation for the market development. The directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the assets of the CGU to exceed the aggregate recoverable amount of the assets of the CGU.

Included in the profit for the year is a loss of RMB3,011,000, attributable to the additional business generated by Guangzhou Yinai. Revenue for the year includes RMB2,636,000, generated from by Guangzhou Yinai.

37. ACQUISITION OF SUBSIDIARIES *(continued)*

Had the acquisition of Guangzhou Yinai been completed on 1 January 2014, total group revenue for the year would have been RMB3,902,840,000, and profit for the year would have been RMB572,112,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Guangzhou Yinai been acquired at 1 January 2014, the directors have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

On 31 May 2013, the Group acquired Dongpeng Sanitary Ware Group from certain members of Controlling Shareholders for a cash consideration of RMB59,197,000. This acquisition has been accounted for using the acquisition method. Dongpeng Sanitary Ware Group is engaged in producing and sales of bathroom products. Dongpeng Sanitary Ware Group was acquired so as to continue the expansion of the Group's bathroom products operation.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Fair value RMB'000
Property, plant and equipment	55,201
Prepaid lease payments	89,740
Deferred tax assets	1,753
Deposits for acquisition of property, plant and equipment	769
Inventories	99,925
Trade and other receivables	50,085
Tax recoverable	760
Amounts due from related parties-trade	6,207
Bank balances and cash	77,701
Trade and other payables	(143,522)
Amounts due to related parties-trade	(1,222)
Amounts due to related parties-non-trade	(110,766)
Amounts due to non-controlling interests	(1,650)
Bank borrowings	(60,000)
Deferred taxation liabilities	(5,813)
	59,168

37. ACQUISITION OF SUBSIDIARIES *(continued)*

The fair value of trade and other receivables at the date of acquisition amounted to RMB50,085,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB58,093,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB8,008,000. Non-controlling interest are measured at their proportionate share of net assets acquired.

	RMB'000
Goodwill arising on acquisition:	
Consideration transferred	59,197
Add: non-controlling interest (30% in Foshan Gaoming Wenchang Furniture Co. Ltd.)	(29)
Less: net assets acquired	(59,168)
	—

	RMB'000
Cash inflow arising on the acquisition:	
Cash consideration	(59,197)
Add: bank balances and cash acquired	77,701
	18,504

Acquisition-related costs amounting to RMB50,000 have been excluded from the consideration transferred and have been recognised as an expense for the year ended 31 December 2013.

Included in the profit for the year is profit of RMB38,711,000, attributable to the additional business generated by Dongpeng Sanitary Ware Group. Revenue for the year includes RMB347,588,000, generated from Dongpeng Sanitary Ware Group.

Had the acquisition of Dongpeng Sanitary Ware Group been completed on 1 January 2013, total group revenue for the year would have been RMB3,505,525,000, and profit for the year would have been RMB341,531,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Dongpeng Sanitary Ware Group been acquired at 1 January 2013, the directors have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

38. DISPOSAL OF A SUBSIDIARY

On 1 January 2013, the Group disposed of its 100% equity interest in Beijing Dongpeng Ceramics Technology Co. Ltd. to a group controlled by certain members of the Controlling Shareholders with a cash consideration of RMB1,000,000.

Analysis of asset and liabilities over which control was lost

	RMB'000
Property, plant and equipment	172
Inventories	1,555
Trade and other receivables	1,414
Bank balances and cash	30
Trade and other payables	(58)
Amounts due to related parties – trade	(9,478)
Net liabilities disposed of	(6,365)

Disposal of a subsidiary

	RMB'000
Consideration received	1,000
Net liabilities disposed of	6,365
Deemed contribution from owners	7,365

Net cash inflow on disposal of a subsidiary

	RMB'000
Consideration received in cash and cash equivalents	1,000
Less: cash and cash equivalent balances disposed of	(30)
	970

39. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2013, purchases of equipment amounting to RMB242,000 respectively have been included in amounts due to related parties.

At 31 December 2013, bills receivables of RMB47,967,000 had been discounted with recourse to banks. During the year ended 31 December 2014, the banks directly received the contractually entitled cash flows of RMB47,967,000 upon maturity of the discounted bills receivable from the Group's debtors as settlement of the related bank borrowings granted to the Group.

During the year ended 31 December 2013, dividends declared to shareholders of the Company and a non-controlling shareholder of a subsidiary amounting to RMB8,801,000 and RMB8,853,000 were not paid and have been included in amounts due to shareholders and amounts due to non-controlling shareholders of a subsidiary respectively.

During the year ended 31 December 2013, waiver of amount due to HK Flying, a related party controlled by certain members of the Controlling Shareholders, under the Corporate Reorganisation amounting to RMB10,864,000 has been included in other reserve.

40. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 16 February 2015, the Controlling Shareholders Mr. He Xinming, who is also the chairman of the Company, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin have entered into a deed of termination (the "Termination Deed") to terminate the Acting-in-Concert Deed.

41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership and voting right held by the Company At 31 December 2013	2014	Principal activity
China Home Investment Co., Ltd. (note 1) ("China Home")	British Virgin Islands 11 April 2012	US$1	100%	**100%**	Investment holding
Dongpeng International (Hong Kong) Holdings Co., Ltd. ("Dongpeng HK")	Hong Kong 4 May 2012	HK$1	100%	**100%**	Investment holding
佛山華盛昌陶瓷有限公司 Foshan Huashengchang Ceramics Co., Ltd. ("Foshan Hua Sheng Chang")	PRC 18 April 1994	US$28,100,000	100%	**100%**	Producing and sales of tiles, decorative wall tiles and bathroom products
清遠納福娜陶瓷有限公司 Qingyuan Nafuna Ceramics Co., Ltd. ("Qingyuan Nafuna")	PRC 12 August 2010	RMB23,000,000	90.35%	**90.35%**	Producing and sales of ceramic tiles, construction ceramic, and bathroom products
豐城市東鵬陶瓷有限公司 Fengcheng Dongpeng Ceramics Co., Ltd. ("Fengcheng Dongpeng")	PRC 10 July 2007	RMB65,000,000	100%	**100%**	Producing and sales of ceramic tile products
澧縣新鵬陶瓷有限公司 Lixian Xinpeng Ceramics Co., Ltd. ("Lixian Xinpeng")	PRC 9 September 2009	RMB10,000,000	100%	**100%**	Producing and sales of ceramic products; process of ceramic materials
淄博卡普爾陶瓷有限公司 Zibo Kapuer Ceramics Co., Ltd. ("Zibo Kapuer")	PRC 30 August 2010	RMB20,000,000	100%	**100%**	Producing and sales of ceramic tile products
廣州市東鵬陶瓷有限責任公司 Guangzhou Dongpeng Ceramics Co., Ltd. ("Guangzhou Dongpeng")	PRC 20 June 2008	RMB3,010,000	100%	**100%**	Sales of ceramic tile and bathroom products
深圳東鵬陶瓷有限公司 Shenzhen Dongpeng Ceramics Co., Ltd. ("Shenzhen Dongpeng")	PRC 21 July 2008	RMB500,000	100%	**100%**	Sales of ceramic tile and bathroom products
上海東鵬陶瓷有限公司 Shanghai Dongpeng Ceramics Co., Ltd. ("Shanghai Dongpeng")	PRC 5 March 2007	RMB500,000	100%	**100%**	Sales of ceramic tile and bathroom products

41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership and voting right held by the Company At 31 December 2013	2014	Principal activity
陝西東鵬建材有限公司 Shanxi Dongpeng ConstructionMaterials Co., Ltd. ("Shanxi Dongpeng")	PRC 3 September 2008	RMB5,000,000	100%	**100%**	Sales of ceramic tile products, decoration and construction materials and bathroom products
佛山市東鵬陶瓷發展有限公司 Foshan Dongpeng Ceramics Development Co., Ltd. ("Foshan Dongpeng Development")	PRC 20 February 2012	RMB13,000,000	92.31%	**92.31%**	Sales of ceramic tile products
湖南東鵬建材貿易有限公司 Hunan Dongpeng Construction Materials Trading Co., Ltd. ("Hunan Dongpeng")	PRC 28 January 2013	RMB2,000,000	100%	**100%**	Sales of ceramic tile and bathroom products
林芝裕和商貿有限公司 Linzhi Yuhe Commerce and Trading Co., Ltd. ("Linzhi Yuhe")	PRC 11 March 2013	RMB2,000,000	100%	**100%**	Sales of ceramics tile and bathroom products
堆龍德慶裕威商貿有限公司 Duilong Deqing Yuwei Commerce and Trading Co., Ltd. ("Deqing Yuwei")	PRC 10 April 2013	RMB1,000,000	100%	**100%**	Sales of ceramics tile and bathroom products
佛山東鵬潔具股份有限公司 Foshan Dongpeng Sanitary Ware Co., Ltd. ("Dongpeng Sanitary Ware")	PRC 22 December 1994	RMB58,300,000	100%	**100%**	Producing and sales of bathroom products
堆龍德慶和盈商貿有限公司 Duilong Deqing Heying Commerce and Trading Co., Ltd. ("Deqing Heying")	PRC 10 April 2013	RMB2,000,000	100%	**100%**	Sales of ceramics tile and bathroom products
江西東鵬衛浴有限公司 Jiangxi Dongpeng Bathroom Products Co., Ltd. ("Jiangxi Bathroom Products")	PRC 15 June 2012	RMB40,000,000	100%	**100%**	Producing and sales of bathroom products
佛山市順德區東鵬陶瓷銷售有限公司 Foshan Shunde Dongpeng Ceramics Trading Co., Ltd. ("Shunde Dongpeng")	PRC 19 August 2008	RMB100,000	100%	**100%**	Sales of ceramic tile and bathroom products

41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership and voting right held by the Company At 31 December 2013	2014	Principal activity
佛山市高明穩暢家具有限公司 Foshan Gaoming Wenchang Furniture Co., Ltd. ("Gaoming Furniture")	PRC 13 September 2011	RMB500,000	70%	**70%**	Producing and sales of bathroom products
廣西粵鵬建材有限公司 Guangxi Yuepeng Construction Materials Co., Ltd. ("Guangxi Yuepeng")	PRC 29 September 2010	RMB2,000,000	100%	**100%**	Sales of construction and decoration materials, ceramic tile and bathroom products
廣東東鵬控股股份有限公司 Guangdong Dongpeng Holding Co., Ltd. ("Guangdong Dongpeng Holdings")	PRC 4 November 2011	RMB180,000,000	100%	**100%**	Sales of ceramic tile and bathroom products; Import and export
佛山市東鵬陶瓷有限公司 Foshan Dongpeng Ceramics Co., Ltd. ("Foshan Dongpeng")	PRC 14 December 2011	RMB15,000,000	100%	**100%**	Sales of ceramic tile and bathroom products; Import and export
雲南軒鵬建材有限公司 Yunnan Xuanpeng Construction Materials Co., Ltd. ("Yunnan Xuanpeng")	PRC 7 September 2011	RMB2,000,000	100%	**100%**	Sales of construction and decoration materials, ceramic tile and bathroom products
青島瑞鵬建材有限公司 Qingdao Ruipeng Construction Materials Co., Ltd. ("Qingdao Ruipeng")	PRC 3 November 2011	RMB2,000,000	100%	**100%**	Sales of construction and decoration materials, ceramic tile and bathroom products
廣東裕和商貿有限公司 Guangdong Yuhe Commerce and Trading Co., Ltd. ("Guangdong Yuhe")	PRC 10 January 2011	RMB20,000,000	100%	**100%**	Trading of ceramic tile and bathroom products
江西豐裕商貿有限公司 Jiangxi Fengyu Commerce and Trading Co., Ltd. ("Jiangxi Fengyu")	PRC 16 January 2012	RMB5,000,000	100%	**100%**	Sales of ceramic tile and bathroom products, ceramic materials

41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership and voting right held by the Company At 31 December 2013	2014	Principal activity
重慶石灣東鵬陶瓷有限公司 Chongqing Shiwan Dongpeng Ceramics Co., Ltd. ("Chongqing Dongpeng")	PRC 3 December 2013	RMB2,000,000	100%	**100%**	Sales of ceramic tile and bathroom products, ceramic materials
廣州藝耐衛浴用品有限公司 Guangzhou Yinai Sanitary Products Co., Ltd. ("Gunagzhou Yinai")	PRC 11 September 2014	RMB2,000,000	N/A	**61.75%**	Design, customization and sale of mid to high-end bathroom products
廣東東鵬家居有限公司 Guangdong Dongpeng Furnishing Co., Ltd ("Dongpeng Furnishing")	PRC 11 November 2014	RMB3,000,000	N/A	**100%**	Sales of ceramic tile and bathroom products, ceramic materials, decoration design
江門東鵬智能家居有限公司 Jiangmen Dongpeng Intelligent Furnishing Co., Ltd ("Jiangmen Dongpeng Furnishing")	PRC 17 November 2014	RMB12,000,000	N/A	**100%**	Producing and sales of bathroom products

All subsidiaries' places of operation are located in PRC except for China Home and Dongpeng HK which operate in Hong Kong.

None of the subsidiaries had issued any debt securities at 31 December 2014 and 2013.

Note 1: This subsidiary is directly held by the Company, All other subsidiaries are indirectly held by the Company.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014	2013
	RMB'000	RMB'000
Non-current Assets		
Unlisted investment in a subsidiary	**142,786**	47,397
Amount due from a subsidiary	**410,633**	124,535
	553,419	171,932
Current Assets		
Amounts due from shareholders	**11**	11
Trade and other receivables	**1,528**	—
Restricted Bank Deposits	**85,720**	—
Bank balances and cash	**10,367**	566,356
	97,626	566,367
Current Liabilities		
Amounts due to shareholders	**—**	8,801
Amounts due to subsidiaries	**17,508**	17,508
Other payables	**1,371**	11,495
Tax payable	**1,071**	—
	19,950	37,804
Net Current Assets	**77,676**	528,563
Total Assets less Current Liabilities	**631,095**	700,495
Net Assets	**631,095**	700,495
Capital and Reserves		
Share capital	**15**	15
Reserves	**631,080**	700,480
Total Equity	**631,095**	700,495

Amount due from a subsidiary is unsecured and interest free. In the opinion of the directors of the Company, the amount due from a subsidiary will not be recovered within twelve months from the end of the reporting period and is therefore classified as non-current. The amount due from a subsidiary is measured at fair value at initial recognition using an effective interest rate of 6.15% per annum. The difference between the estimated fair value and the amounts advanced to the subsidiary is recognised as investment in the subsidiary.

43. RESERVES

The Company

	Share premium RMB'000	Profit RMB'000	Total RMB'000
At 1 January 2013	—	—	—
Conversion of Series A Shares	220,985	—	220,985
Issuance of new shares upon initial public offering	578,035	—	578,035
Share issue expenses	(26,217)	—	(26,217)
Profit for the year	—	17,677	17,677
Dividend	(90,000)	—	(90,000)
At 31 December 2013	682,803	17,677	700,480
Issue of shares under share option scheme	**95**	**—**	**95**
Profit for the year	**—**	**484**	**484**
Dividend	**(69,979)**	**—**	**(69,979)**
At 31 December 2014	**612,919**	**18,161**	**631,080**