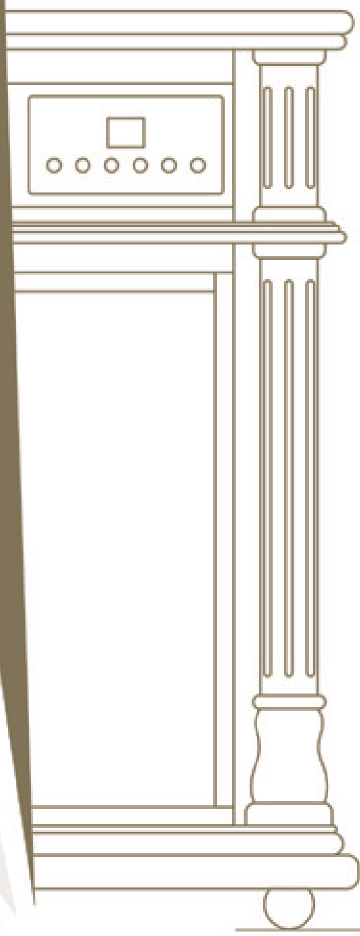
CHINA CREATIVE GLOBAL HOLDINGS LIMITED
中 創 環 球 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1678

ANNUAL REPORT 2017



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Fanglin *(Chairman)*
Mr. Shen Jianzhong
Mr. Chen Jiang
Mr. Xu Qiang
Mr. Zheng Hebin

Independent Non-executive Directors

Mr. Dai Jianping
Mr. Ng Wing Keung
Ms. Sun Kam Ching

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Hui Hung Kwan, *CPA, FCCA*

AUTHORISED REPRESENTATIVES

Mr. Chen Fanglin
Mr. Hui Hung Kwan

AUDITORS

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

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 913
China Merchants Tower
168–200 Connaught Road Central
Sheung Wan
Hong Kong

HEAD OFFICE IN THE PRC

Allen Electronic Industrial Park
Heshi
Luojiang District
Quanzhou
Fujian Province
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.cchome.hk

STOCK CODE

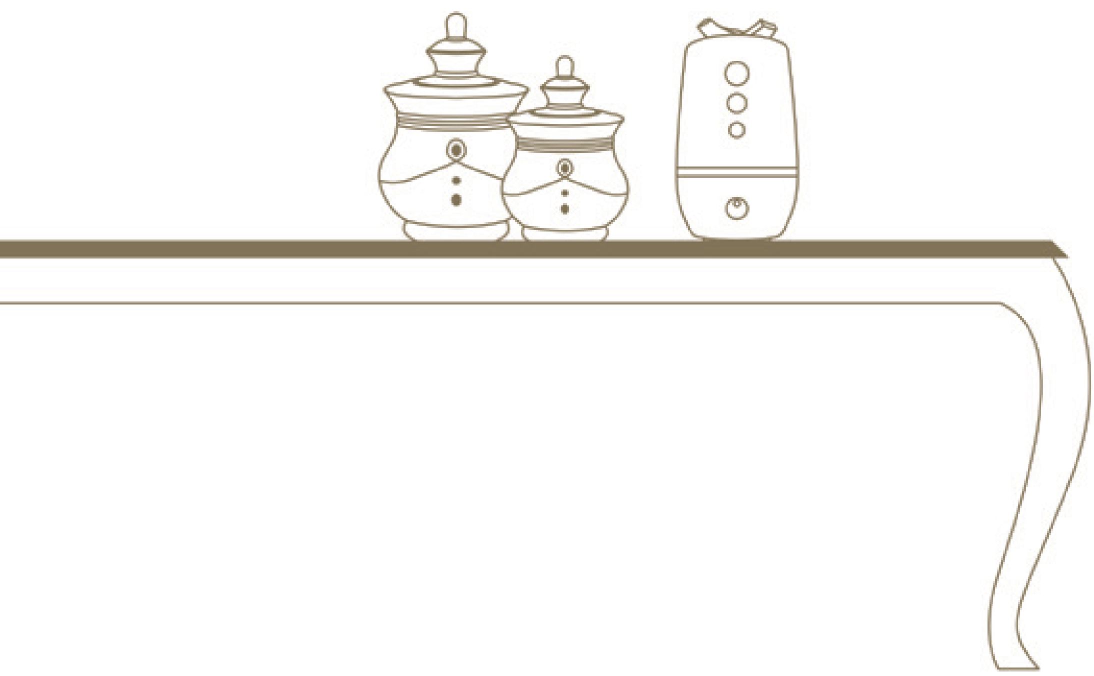
1678

CORPORATE PROFILE

China Creative Global Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group" or "China Creative Global") is principally engaged in design, development, manufacture and sales of home decor products and electric fireplaces. The Shares of the Company (the "Shares") was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2013. The Group mainly sells products in the People's Republic of China (the "PRC" or "China") under the "Allen (亚伦)" brand and to overseas customers including the US, Canada, Germany, France and the U.K. on original design manufacturing ("ODM")/original equipment manufacturing ("OEM") basis. Our home decor products include gardening decorations (e.g. fountains, waterfalls and patio furniture such as tables and stools) and indoor crafts (e.g. mini-figurines, vases, photo frames and sculptures). Our electric fireplaces are divided into two categories: (i) framed electric fireplaces and (ii) non-framed electric fireplaces.

The Group's design and technical team consists of more than 75 staff. Currently, the Group owns 64 patents in the PRC. The "Allen (亚伦)" brand has been recognised as the Well-known Trademark of the PRC in respect of home decor products by the State Administration for Industry and Commerce in the PRC in 2011 and as the Famous Trademark of Fujian Province in respect of its electric fireplaces by the Administration for Industry and Commerce of Fujian Province in 2012. It was selected in 2011 by the China Association for Engineering Construction Standardisation as the only electric fireplace manufacturer in the PRC to be involved in the process of developing and compiling the industry regulation standard of electric fireplaces in the PRC in recognition of its national market-leading position.

The Group's current production facilities are located in Luojiang and Quangang in Fujian Province, and Bengbu in Anhui Province with a total gross floor area of approximately 145,650 square metres. As of 31 December 2017, the Group's total effective designed annual production capacity was 627,500 units of electric fireplaces and 16,200 tonnes of polyresin home decor products.



CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

To Our Shareholders,

On behalf of the board of directors of the Company (the "Board"), I am pleased to present the annual report of the Group for the year ended 31 December 2017 ("year under review").

Overviewing 2017, world economy displayed signs of recovery although the world has experienced a series of strains geopolitically as well as traumatic natural disasters. Following the trend in recent years, the PRC's economy recorded a modest growth of 6.9%. According to the National Bureau of Statistics of China, both per capita disposable income and consumer expenditure increased, by 7.3% and 7.1% respectively compared to the previous year.

This leads to continuous improvement of the standard of living as well as the expectations on the quality of life from the country's consumers, with lifestyle focuses on individuality, safety and health and environmental protection. As a result, domestic consumption is moving away from pure purchases and upgrading to the lifestyle services.

While the service sector contributed to 51.6% of the national GDP in 2017, manufacturers in the country faced challenges like cuts on overcapacity and the increasing competition in the market. For the Group, the overall home furnishing market in the PRC has yet to show some growth. It is taking all factors into consideration to stay prudent on the market outlook.

For the year ended 31 December 2017, the Group's revenue amounted to RMB147.8 million, representing a decrease of 57.7% compared to that of last year. Loss attributable to equity holders of the Company increased by 82.8% to RMB174.6 million (2016: RMB95.5 million). On top of the weak market demand for electric fireplaces and home decor products in the PRC, the Group experienced an increase in the share of loss of an associate, a fair value loss on investment property, and an impairment loss on property, plant and equipment, accountable for the loss attributable to equity holders.

The major streams of revenue are electric fireplaces, and home decor products. Electric fireplaces contributed to RMB103.1 million for the year under review, 69.8% of the total revenue. Home decor products contributed to RMB44.7 million of revenue to the Group, as 30.2% of its total. For the year under review, revenue from overseas markets amounted to RMB80.8 million, roughly 54.7% of the Group's total revenue; revenue from domestic PRC market was recorded at approximately RMB67.0 million, approximately 45.3% of the total.

During the year under review, management of the Group made the decision to classify its investment in Radiant Forever Development Limited as assets held for sale, for it had incurred share of loss from the associate.

In November 2017, the Group acquired a company specializing in the trading of air purifiers in the PRC, Aoshiweilang Environmental Technology (Shanghai) Limited, with the intention to broaden the income base and facilitate the development of the Group's air purifiers business.

PROSPECTS FOR 2018

In 2018, the expanding property market in the PRC and the booming air purifier industry are believed to positively impact the operating conditions for the markets of electric fireplaces and air purifiers, and home decor products. However, the Group expects to face the adversity from the changing consumption pattern and economic uncertainties.

Stemming from the country's rapid development, deteriorating air quality has become an everyday issue for the general population. Together with the PRC's two-child policy, children's health presents an even stronger demand driver in the air purifier market. The Group will take the initiative to source suitable products and partnerships to cater for relevant demand, deriving more income and gaining diversity its product profile.

Meanwhile, the number of property buyers are still expected to grow, benefitting the overall home furnishing market. Consumers' expectations for comfortable homes will be upgrading as with the climbing income level. The Group will examine all opportunities for growth for the "Allen" (亚伦) brand.

the Directors have been proactively seeking potential investment opportunities in different sectors. For example, the Company has entered into a non-legally binding memorandum of understanding in relation to the potential acquisition of Fujian East Asia Aquatic Products Company Limited (福建東亞水產股份有限公司). In addition to the aquaculture industry, the Group also intends to diversify its business into the forestry sector and expand its existing business by tapping into the development and manufacturing of water purifiers and fresh air system.

Carrying our industry expertise forward, the Group will continue searching for business opportunities in the domestic as well as overseas markets. In the meantime, the Group will improve its products and optimise its business composition for sustainable growth.

APPRECIATION

On behalf of the Board, I would like to voice our outmost appreciation to customers, bankers, investors and business partners for their abiding support and trust towards the Group. I will also take this opportunity to say our thanks to the management and all staff members for their contributions to the Group over the past year. Going forward, the Group will explore all opportunities in the market so as to strive for optimal returns for our shareholders.

CHEN Fanglin
Chairman and Executive Director

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2017, the world economy showed signs of recovery yet the rebound is still masked with uncertainties. As for the PRC, it picked up GDP growth rate gradually after 6 years of declining speed. While the PRC is developing and reforming on its path of economic new normal, domestic demand and consumer market pose more and more importance to its future growth.

Information from the National Bureau of Statistics of China indicates that per capita disposable income in the PRC in 2017 was RMB25,974, representing an increase of 7.3% as compared with that of last year. Per capita consumption expenditure also increased 7.1% to RMB18,322, while the Engel coefficient, i.e. the proportion of income spent on food, continued to fall, indicating an increasing living standard in the country.

After rapid growth in previous two decades, the PRC has become the largest home furniture production base and exporter. With the growing wealth of the PRC population, people are more willing to purchase and replace home furnishing products. However, the home furnishing manufacturers in the PRC are much less concentrated than in other industries, posing pressures on many of the market players.

BUSINESS REVIEW

China Creative Global is principally engaged in the business of design, development, manufacture and sales of home decor products and electric fireplaces. The Group sells its products domestically in the PRC under its “Allen” (亚伦) brand and export its products on ODM/OEM basis to countries including the U.S., Germany, Canada, France and the U.K..

The revenue of the Group for the year ended 31 December 2017 decreased by 57.7% to RMB147.8 million from RMB349.7 million for the year ended 31 December 2016. The loss attributable to the equity holders of the Company was RMB174.6 million, representing an increase of 82.8% as compared to the loss of RMB95.5 million for the year ended 31 December 2016. This was mainly due to (1) a decrease in sales of electric fireplaces and home decor products due to the low market demand in the PRC; (2) an increase in the share of loss of an associate; (3) a fair value loss on investment property; and (4) an impairment loss on property, plant and equipment.

The Group’s products are under two major categories, namely (1) electric fireplaces and (2) home decor products. Revenue distribution by the two categories for the year ended 31 December 2017 were 69.8% and 30.2% respectively, while the proportions were 57.6% and 42.4% respectively last year.

During the year ended 31 December 2017, overseas market contributed RMB80.8 million (2016: RMB104.5 million), or 54.7% (2016: 29.9%) to the Group’s total revenue. Revenue from the PRC market decreased from RMB245.2 million in the year ended 31 December 2016 to RMB67.0 million in the year ended 31 December 2017, taking up 45.3% (2016: 70.1%) of the total revenue.

On 30 November 2017, through a wholly owned subsidiary, the Group acquired 100% of the equity interests in the Aoshiweilang Environmental Technology (Shanghai) Limited (奧士威朗環保科技（上海）有限公司) (“Aoshiweilang”), at the consideration of RMB8.0 million, which was satisfied by the allotment and issue of the consideration shares by the Company. Having considered the experience and customer base of Aoshiweilang in the trading of air purifiers, the Directors consider the acquisition presents a valuable opportunity to broaden the income base of the Group and facilitate the development of the Group’s air purifiers business, which is expected to create synergies and enhance the Group’s profitability and competitiveness.

BUSINESS REVIEW (Continued)

The Group considers innovation as the core element of its development. The design team consists of 77 staff as at 31 December 2017.

PROSPECTS

As the PRC's economy is returning to an accelerating growth path, manufacturers are still confronted with pressure from various aspects, for instance, saturated market, and the government's continued efforts in promoting policies to cut excess production capacity. Under such circumstances, the Group remains cautious yet positive about the future development of the Chinese home furnishing market.

Intended to diversify its business and broaden its income sources, the Group keeps exploring different business development methods. In January 2018, the Group was appointed as a non-exclusive agent for the distribution and management of the O2U purebed air purifiers for infants in the PRC, Hong Kong and the Macau Special Administrative Region of the PRC. In the light of the growing infant care market brought by the PRC's two-child policy and increasing concerns over the health impact of worsening environment conditions, this agency appointment is expected to give a positive impact to the operations, financial results and profitability of the Group.

The Directors have been proactively seeking potential investment opportunities in different sectors to diversify and expand the business portfolio of the Group. For example, the Company has entered into a non-legally binding memorandum of understanding in relation to the potential acquisition of Fujian East Asia Aquatic Products Company Limited (福建東亞水產股份有限公司). For further information, please refer to the announcement of the Company dated 22 January 2018. In addition to the aquaculture industry, the Group also intends to diversify its business into the forestry sector and expand its existing business by tapping into the development and manufacturing of water purifiers and fresh air system.

Riding on its rich history, outstanding product development capacity and reputation of the "Allen" (亚伦) brand, the Group aims to optimize its business model and diversify sources of income by providing elegant electric fireplaces, and distinctive home decor products, while developing high-tech and environment-friendly business segments.

FINANCIAL ANALYSIS

Revenue

Our revenue decreased by RMB201.9 million from RMB349.7 million to RMB147.8 million, represented a decrease of 57.7% compared with last year. The decrease was mainly driven by the lower market demand.

Revenue analysis by product type is as follows:

	2017		2016	
	RMB'000	% of revenue	RMB'000	% of revenue
Electric fireplaces				
Frame electric fireplaces				
– Wood series	16,212	11.0	112,690	32.2
– Natural stone series	–	–	1,534	0.4
– Inorganic series	–	–	36,930	10.6
Non-framed electric fireplaces	16,391	11.1	22,890	6.5
Heater and others	69,896	47.3	19,462	5.6
Air purifiers	630	0.4	8,118	2.3
	103,129	69.8	201,624	57.6
Home decor products				
– Polyresin series	43,823	29.6	112,839	32.3
– Porcelain series	854	0.6	12,210	3.5
– Inorganic series	–	–	23,071	6.6
	44,677	30.2	148,120	42.4
	147,806	100	349,744	100

The decrease in the sales of electric fireplaces and home decor products was primarily due to the decrease in sales volume due to the weak market demand in the PRC. The Group has ceased the production of porcelain series and inorganic series home decor products since April and August 2016 respectively.

FINANCIAL ANALYSIS (Continued)

Gross Profit And Gross Profit Margin

Our gross profit decreased from RMB92.5 million for the year ended 31 December 2016 to RMB28.2 million for the year ended 31 December 2017, represented a decrease of 69.5% compared with last year mainly due to the decrease in sales and gross profit margin.

The gross profit margin decreased from 26.4% for the year ended 31 December 2016 to 19.1% for the year ended 31 December 2017. The decrease was primarily due to the decrease in average selling prices and the lower contribution of sales from wood series and natural stone series electric fireplaces which have higher gross profit margin.

Selling And Distribution Costs

Our selling and distribution costs decreased by RMB13.7 million, or approximately 49.8%, from RMB27.5 million for the year ended 31 December 2016 to RMB13.8 million for the year ended 31 December 2017 primarily due to decrease in delivery expenses due to the decrease in sales, advertising and promotion expenses, and staff cost.

Administrative Expenses

Our administrative expenses decreased by RMB5.5 million, or approximately 6.9%, from RMB79.5 million for the year ended 31 December 2016 to RMB74.0 million for the year ended 31 December 2017. The decrease was mainly due to the decrease in staff costs and research and development costs.

Impairment provision of property, plant and equipment

As at 31 December 2017, the Group had property, plant and equipment before impairment provision of approximately RMB414.4 million and RMB240.8 million located in Anhui and Quanzhou, the PRC respectively. For the year ended 31 December 2017, the Group's operation in Anhui and Quanzhou have been making losses and management has performed an impairment assessment, taking into account the current status of the assets and market price/transactions for similar assets. Based on the result of the assessment, carrying amount of the property, plant and equipment in Anhui and Quanzhou is lower than its recoverable amount, and therefore, an impairment provision of RMB53.1 million (2016: RMB54.0 million) has been made during the year.

Other Income

Other income increased by RMB7.6 million or approximately 161.7%, from RMB4.7 million for the year ended 31 December 2016 to RMB12.3 million for the year ended 31 December 2017 primarily due to the increase in rental income.

Other Losses – Net

The Group's other losses consists of the net foreign exchange loss of RMB1.9 million, loss on disposal of property, plant and equipment of RMB1.8 million, loss on disposal of a land use right of RMB0.7 million, other PRC taxes in relation to the disposal of assets of RMB1.9 million, and set off by gain on disposal of assets classified as held for sale of RMB5.5 million. While for the year ended 31 December 2016, the Group's other losses consists of net foreign exchange loss of RMB0.8 million.

FINANCIAL ANALYSIS (Continued)

Finance Costs

The Group's finance costs decreased by RMB12.7 million, or approximately 77.9%, from RMB16.3 million for the year ended 31 December 2016 to RMB3.6 million for the year ended 31 December 2017. The decrease was mainly due to the foreign exchange gain of RMB9.8 million arising from borrowings denominated in HKD.

Share of Loss of an Associate

The Group acquired 49% of the entire issued share capital in Radiant Forever Development Limited in December 2016. RMB13.3 million loss arising from the associate was shared to the Group for the year ended 31 December 2017.

Income Tax Expenses

Our income tax expenses increased by RMB3.7 million, or approximately 176.2%, from RMB2.1 million for the year ended 31 December 2016 to RMB5.8 million for the year ended 31 December 2017, primarily as a result of the land appreciation tax of RMB4.8 million net off by the decrease in our profit.

Loss for the Year Attributable to Equity Holders of the Company

Loss attributable to equity holders of the Company increased by RMB79.1 million from RMB95.5 million for the year ended 31 December 2016 to RMB174.6 million for the year ended 31 December 2017. Basic loss per Share increased from RMB5 cents for the year ended 31 December 2016 to RMB9 cents for the year ended 31 December 2017 mainly due to the increase in our loss.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and cash is generally deposited with reputable banks and denominated mostly in RMB. As at 31 December 2017, the Group had net current assets of RMB1,080.0 million (2016: RMB921.3 million), of which cash and cash equivalents were RMB777.2 million (2016: RMB817.2 million).

The Group principally meets its working capital and other liquidity requirements through a combination of operating cash flows, capital contributions and borrowings. As at 31 December 2017, the Group's borrowings amounted to RMB147.8 million (2016: RMB176.1 million) and these borrowings were denominated in HKD and RMB. As at 31 December 2017, the effective interest rate on the Group's bank borrowings was 8.12% (2016: 7.66%).

	2017	2016
Current ratio[1]	17.9	12.8
Gearing ratio (%)[2]	7.1%	7.8%

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

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

FOREIGN EXCHANGE RISK

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

CHARGE ON ASSETS

At 31 December 2016, the Group had pledged its certain property, plant and equipment, and assets classified as held for sale with net book value of RMB179.2 million mainly for the purpose of securing bank borrowings.

WORKING CAPITAL MANAGEMENT

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

Our net current assets increased from RMB921.3 million as at 31 December 2016 to RMB1,080.0 million as at 31 December 2017, representing an increase of RMB158.7 million or 17.2%. The increase in working capital is mainly a result of the increase in trade receivables, deposits, prepayments and other receivables, the decrease in borrowings, and partly set off by the decrease in cash and cash equivalents, and the increase in trade and other payables.

USE OF PROCEEDS FROM GLOBAL OFFERING

The Shares of the Company were listed on the Main Board of the Stock Exchange on 20 December 2013. Net proceeds from the global offering were approximately HKD597.2 million (after deducting the underwriting commission and relevant expenses). As at 31 December 2017, the unused proceeds were deposited in licensed banks in Hong Kong and the PRC.

	Percentage to total amount	Net Proceeds HKD' million	Utilised Amount as at 31 December 2017 HKD' million	Unutilised Amount as at 31 December 2017 HKD' million
Establishing new production facilities	53.7%	320.7	320.7	—
Establishing seven creative home furnishing concept shops	16.0%	95.6	36.8	58.8
Expanding overseas sales network under our own brand overseas	7.3%	43.6	12.1	31.5
Own-brand promotion	7.0%	41.8	41.8	—
Increasing and enhancing our research and development activities	6.0%	35.8	35.8	—
General working capital	10.0%	59.7	59.7	—
		597.2	506.9	90.3

EMPLOYEES AND EMOLUMENTS

As at 31 December 2017, we employed a total of 717 full time employees in the PRC and Hong Kong which included management staff, product designers, technicians, salespersons and workers. For the year ended 31 December 2017, the Group's total expenses on the remuneration of employees was RMB56.3 million, representing 38.1% of the revenue of the Group.

Our emolument policies are formulated based on the performance of individual employee which will be reviewed periodically. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance fund (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. Since the adoption of the share option scheme on 2 December 2013 and up to 31 December 2017, no options have been granted.

CAPITAL EXPENDITURE

For the year ended 31 December 2017, the capital expenditure of the Group amounted to RMB1.4 million. It was comprised of property, plant and equipment in the PRC.

MATERIAL ACQUISITION AND DISPOSALS AND SIGNIFICANT INVESTMENTS

In October 2017, the Group had entered into an agreement to acquire 100% of the entire issued capital in Aoshiweilang, which is engaged in trading of air purifiers in the PRC, from an independent third party, at the consideration of RMB8.0 million. The transaction was completed in November 2017.

Saved as disclosed above, the Group did not have any material investments or capital assets, or material acquisitions or disposals of subsidiaries or significant investments for the year ended 31 December 2017.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

CORPORATE GOVERNANCE REPORT

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

The Company has adopted all the requirements of the code provisions of the Corporate Governance Code. During the year, the Company has complied with all the code provisions of the Corporate Governance Code.

ROLE OF THE BOARD

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

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

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

BOARD COMPOSITION

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

Throughout the year and up to the date of this report, the composition of the Board was as follows:

Executive Directors:

Mr. Chen Fanglin *(Chairman)*
Mr. Shen Jianzhong
Mr. Chen Jiang *(Appointed on 16 February 2017)*
Mr. Xu Qiang *(Appointed on 16 February 2017)*
Mr. Zheng Hebin *(Appointed on 8 December 2017)*
Mr. Chen Hongming *(Resigned on 8 December 2017)*

Independent non-executive Directors:

Mr. Dai Jianping
Mr. Ng Wing Keung
Ms. Sun Kam Ching

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

BOARD COMPOSITION (Continued)

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

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

With respect to regular meetings of the Board, the Directors will be given written notice of the meeting at least 14 days in advance and an agenda with supporting Board papers no less than three days prior to the meeting. For other meetings, the Directors are given as much notice as is reasonable and practicable in the circumstances. Minutes of board meetings and meetings of board committees are kept by the company secretary of the Company and open for inspection at any reasonable time or reasonable notice by any Director.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

APPOINTMENTS, RE-ELECTION AND ROTATION OF DIRECTORS

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

According to the Articles and in the opinion of the Board, the Directors, namely Mr. Shen Jianzhong, Mr. Zheng Hebin and Mr. Ng Wing Keung will retire at the forthcoming annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the same meeting.

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

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors.

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

BOARD COMMITTEES

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

Remuneration Committee

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

The major duties of the Remuneration Committee are as follows:

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

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

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

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

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

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

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

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

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

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

During the year, the Remuneration Committee convened one meeting:

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

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

Audit Committee

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

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

During the year, the Audit Committee discharged its responsibilities by:

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

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

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

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

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

(5) reviewing the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, reviewing internal control and risk management systems to ensure that management has discharged its duty to have effective internal control and risk management systems;

(6) considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(7) where an internal audit function exists, reviewing the internal audit programme, ensuring co-ordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;

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

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

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

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

During the year, the Audit Committee convened two meetings:

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

During the year and up to the date of this report, the Audit Committee together with management has reviewed the Corporate Governance Code, the accounting principles and practices adopted by the Group and discussed the Group's internal control and financial reporting matters, including a review of the annual results for the year ended 31 December 2017 and the interim results, with recommendation to the Board for approval. The Audit Committee has also recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, PricewaterhouseCoopers be re-appointed as the external auditors of the Company.

BOARD COMMITTEES (Continued)

Nomination Committee

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

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

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

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

During the year, the Nomination Committee convened one meeting:

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

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

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

CORPORATE GOVERNANCE

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

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL AUDIT

Financial reporting

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

The statement by the auditor about their reporting responsibilities is set out in the independent auditor's report on pages 38 to 43.

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.

Risk management and Internal control

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining sound and effective risk management and internal control systems (including reviewing their effectiveness) to safeguard Shareholders' investment and the Group's assets.

The internal control system of the Group is designed for identifying and managing risks that are significant to the fulfilment of the Group's business objectives. The Group's management continues to allocate resources for an internal control and risk management system compatible with the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") framework to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

Through the Audit Committee, the Board continues to review the effectiveness of risk management and internal control systems which include financial, operational, compliance, risk identification and assessment and risk response implementation controls. This process consists of (i) assessing such systems by the Group's internal audit function; (ii) operational management's assurance of their maintenance of effective risk management systems and internal controls; and (iii) identifying control issues by the external auditor during statutory audit. The Audit Committee reviews the adequacy of resources, qualifications, experiences and training requirements of staff responsible for accounting, financial reporting, treasury, financial analysis and internal audit functions. Review of the effectiveness of the risk management and internal control system has been conducted by management who provides the confirmation to the Board through the Audit Committee.

The Group also has an internal audit function to review risk management and internal control regularly by (i) evaluating the control environment and risk identification and assessment processes; (ii) assessing the adequacy of risk response measures and internal controls; and (iii) testing the implementation of such measures and the functioning of key controls through audit sampling.

The Group is fully aware of its obligations under the Listing Rules and the Securities and Futures Ordinance, which has established the internal policy to regulate the handling and dissemination of inside information. The Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission. The internal policy is updated whenever required and adopted accordingly to guide its stakeholder communications and the determination of inside information in order to ensure consistent and timely disclosure.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL AUDIT (Continued)

Risk management and Internal control (Continued)

The Group has established an ongoing process for identifying, evaluating and managing the significant risks faced, including strategic planning, corporate governance, financial reporting, core business processes, and compliance and risk management. Review of the significant risks faced has been conducted to ensure the effectiveness and adequacy of the risk management and internal control system for the year ended 31 December 2017.

For the year under review, the Board considers that the risk management and internal control systems of the Group are adequate and effective and the Company has complied with the relevant code provisions in the Corporate Governance Code on internal control.

In the meeting held on 28 March 2018, the Audit Committee has also reviewed and considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The findings of the Audit Committee have been reported to the Board.

Independent auditor

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

The remuneration paid or payable to the independent auditor of the Company in respect of the audit services for the year ended 31 December 2017 amounted to approximately RMB2.4 million.

COMPANY SECRETARY

The company secretary of the Company, Mr. Hui Hung Kwan, is a full-time employee of the Group. Please refer to his biographical details as set out on page 37 of this annual report.

RIGHTS OF SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

SENDING ENQUIRIES TO THE BOARD AND PROCEDURES FOR PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

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

Contact Person:	Mr. Hui Hung Kwan, Company Secretary
Postal Address:	Room 913, China Merchants Tower, 168–200 Connaught Road Central, Sheung Wan, Hong Kong

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

COMMUNICATIONS WITH SHAREHOLDERS

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

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

DIRECTORS' REPORT

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

Results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of comprehensive income on page 44.

The Board does not recommend a final dividend for the year ended 31 December 2017.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 108 of this annual report.

SHARE CAPITAL

On 30 November 2017, the Company allotted and issued 50,000,000 new shares in satisfaction of the aggregate consideration for the acquisition of 100% of the entire issued share capital in Aoshiweilang Environmental Technology (Shanghai) Limited. The closing price of the Company's share on 30 November 2017 was HKD0.219 per share.

Details of the movements in share capital of the Company in the year ended 31 December 2017 are set out in Note 24 to the financial statements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders consist of share premium and retained earnings. As of 31 December 2017, the Company had an aggregate share premium and retained earnings of RMB713,471,000 which are available for distribution to the shareholders. For the year ended 31 December 2017, no dividend has been proposed.

PRE-EMPTIVE RIGHTS

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

PRINCIPAL PROPERTY

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

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

BANK BORROWINGS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, the Group's five largest customers accounted for approximately 93.1% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 48.3% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 43.9% of the Group's total purchases, while the largest supplier for the year accounted for approximately 16.6% of the Group's total purchases.

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

REMUNERATION POLICY AND EMPLOYEES

As at 31 December 2017, the Group had 717 employees in total. The table below shows a breakdown of the Group's employees by their responsibilities:

Department	Number of employees
Management	16
Production	483
Quality assurance	15
General and administration	84
Purchase and logistics	18
Design and technical	77
Sales and marketing	24
Total	717

The remuneration policy (which includes the payment of the emoluments to the employees) of the employees of the Group is set up by the Remuneration Committee on the basis of the employees' qualifications, experiences, job nature, performance and market condition. Details of the staff cost, remuneration of key management and the Directors are set out in Notes 9, 33 and 35 respectively to the financial statements, having regard to the Company's operating results, individual performance of the senior management and the Directors and comparable market statistics.

REMUNERATION POLICY AND EMPLOYEES (Continued)

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

Remuneration bands	Number of persons
Nil to RMB1,000,000	9
RMB1,000,001 to RMB1,500,000	–
RMB1,500,001 to RMB2,000,000	1
	10

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

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

DIRECTORS

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

Executive Directors:

Mr. Chen Fanglin *(Chairman)*
Mr. Shen Jianzhong
Mr. Chen Jiang *(Appointed on 16 February 2017)*
Mr. Xu Qiang *(Appointed on 16 February 2017)*
Mr. Zheng Hebin *(Appointed on 8 December 2017)*
Mr. Chen Hongming *(Resigned on 8 December 2017)*

Independent non-executive Directors:

Mr. Dai Jianping
Mr. Ng Wing Keung
Ms. Sun Kam Ching

In accordance with the Articles, Mr. Shen Jianzhong, Mr. Zheng Hebin and Mr. Ng Wing Keung retire at the forthcoming annual general meeting but, being eligible, offers themselves for re-election.

Mr. Dai Jianping, Mr. Ng Wing Keung and Ms. Sun Kam Ching are independent non-executive Directors and were appointed for a three-year term expiring on 30 November 2019.

DIRECTORS' SERVICES CONTRACTS

Each of the executive Directors, Mr. Chen Fanglin and Mr. Shen Jianzhong, each of the executive Directors, Mr. Chen Jiang and Mr. Xu Qiang and the executive Director, Mr. Zheng Hebin, has entered into a service contract with the Company for a term of three years commencing from 20 December 2016, 16 February 2017, and 8 December 2017 respectively, which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the independent non-executive Directors have been appointed for a term of three years commencing from 1 December 2016. None of the Directors has entered into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are set out on pages 34 to 37.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN ELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of he year or at any time during the year.

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

As at 31 December 2017, the interests and short positions of the Directors of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code will be as follows:

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate Percentage of Shareholding Interest (%)
Mr. Chen Fanglin	Interest in controlled corporation/ Long position (Note 1)	1,088,669,180	52.34
	Beneficial owner/Long position	166,000	0.01
	Interest of spouse/Long position (Note 2)	1,186,000	0.09
		1,090,021,180	52.44

Note 1: Mr. Chen Fanglin is deemed to be interested in the Shares held by China Wisdom Asia Limited in which Central Profit Group Limited holds entire interests. Central Profit Group Limited is his wholly-owned company. The details are set out as below:

Name of director	Name of associated corporation	Capacity/ Nature of interest	Number of Shares	Approximate Percentage of Shareholding Interest (%)
Mr. Chen Fanglin	China Wisdom Asia Limited	Interest in controlled corporation	50,000 shares of US$1.00 each	100
Mr. Chen Fanglin	Central Profit Group Limited	Beneficial owner	one share of US$1.00	100

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

Save as disclosed above, none of the Directors of the Company had interests or short positions in the Shares, underlying Shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2017.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

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

As at 31 December 2017, the following persons (other than a Director of the Company), who had interests or short positions in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name	Capacity/Nature of interest	Number of Shares	Approximate Percentage of Shareholding Interest (%)
China Wisdom Asia Limited	Beneficial owner/Long position (Note 1)	1,088,669,180	52.34
Central Profit Group Limited	Interest in controlled corporation/Long position (Note 1)	1,088,669,180	52.34
Chen Xiangqun	Interest of spouse/Long position (Note 2)	1,088,835,180	52.35
	Beneficial owner	1,186,000	0.09

Notes:

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

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

Save as disclosed above, the Directors are not aware of any person, other than the Directors whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, who had an interest or short positions in the shares or underlying shares that were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded pursuant to Section 336 of Part XV of the SFO as of 31 December 2017.

SHARE OPTION SCHEME

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

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

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

From the date that the Share Option Scheme became effective and unconditional and up to the date of this annual report, no share options were granted under the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

The Company has not redeemed any of the shares during the year ended 31 December 2017. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2017.

PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficiency of public float at all times during the year ended 31 December 2017.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 33 to the financial statements, and none of which constitutes a discloseable connected transaction as defined under the Listing Rules.

DEED OF NON-COMPETITION

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

The independent non-executive Directors have reviewed compliance by the Covenantors and confirm that based on confirmations and information provided by each of the Covenantors, they were in compliance with the Deed of Non-Competition during the year ended 31 December 2017.

The independent non-executive Directors were not required to review any matter in relation to compliance and enforcement of the Deed of Non-Competition during the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of his report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company or an associated company.

AUDIT COMMITTEE

The Company has established the Audit Committee pursuant to a resolution of the Directors passed on 2 December 2013. The Audit Committee comprises three independent non-executive Directors, namely Mr. Ng Wing Keung, Mr. Dai Jianping and Ms. Sun Kam Ching. Mr. Ng Wing Keung is the chairman of the Audit Committee. The rights and duties of the Audit Committee comply with the code provisions of the CG Code. The Audit Committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board.

The Audit Committee had reviewed the audited results of the Group for the financial year ended 31 December 2017.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment in the forthcoming Annual General Meeting.

CLOSURE OF REGISTERED MEMBERS

In order to determine the entitlement to attend the annual general meeting to be held on 29 May 2018 (the "Annual General Meeting"), the register of members of the Company will be closed from 24 May 2018 to 29 May 2018 (both days inclusive), during which period no transfer of Shares can be registered. In order to qualify for attending the Annual General Meeting, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 23 May 2018.

On behalf of the Board
Chen Fanglin
Chairman

Hong Kong, 28 March 2018

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Fanglin (陳芳林), aged 54, is the Chairman and executive Director of our Company. Mr. Chen is responsible for the overall strategic and business direction of our Group. He is the founder of our business in 1993. He graduated from the Quanzhou Normal School (泉州師範專科學校) (now known as the Quanzhou Normal University (泉州師範學院)) in 1982. He obtained a Master of Business Administration from The Open University of Hong Kong (香港公開大學) in 2004. From August 1982 to February 1986, Mr. Chen was a teacher at the Nanan No. 2 Middle School of Fujian (福建省南安第二中學) and from March 1986 to December 1989, he was responsible for research and English studies at the Education Department of Quanzhou Normal School (泉州師專教務處). Mr. Chen also holds the title senior economist (高級經濟師) awarded by Fujian Province Department of Personnel (福建省人事廳) in August 2008. Mr. Chen was appointed as the vice president of China Gift & Leisure Products Association (中國禮儀休閒用品工業協會) in September 2012. Mr. Chen was appointed as the deputy to National People's Congress of Quanzhou City (泉州市人大) in March 2012. He was awarded as the Outstanding Person of Economic in the China Market (中國市場傑出經濟人物) by the China Market Guidance Committee (中國市場指導委員會) and China Market Magazine (中國市場雜誌社) in December 2010. Mr. Chen is a member of council of the Fujian Province Chamber of Commerce for Privately Owned Enterprise (福建省民營企業商會) and the Fujian Province Committee of Business and Industrial Joint Association (福建省工商業聯合會直屬委員會) since January 2011. In February 2011, he was awarded as the Quanzhou Person of Economic (泉州經濟人物) by the Propaganda Department of the People's Communist Party of Quanzhou City (中共泉州市委宣傳部), Quanzhou City General Chamber of Commerce (泉州市總商會) and Quanzhou Evening Post (泉州晚報社). In December 2011, Mr. Chen was the vice president of the Quanzhou City Business and Industrial Joint Association (General Chamber of Commerce) (泉州市工商業聯合（總商會)). He was nominated as the Leader of China Building Energy Saving Industry (中國建築節能減排領導人物) by China Building Energy Saving Industry Alliance (中國建築節能減排產業聯盟) and China Urban Housing Industry Council (中國城市住宅產業理事會).

Mr. Shen Jianzhong (申建忠), aged 58, is the vice president, chief administrative and human resources officer of our Group and an executive Director of our Company. Mr. Shen is responsible for human resources and administration management of our Group. Prior to joining our Group in 1994, Mr. Shen worked in Quanzhou Guopin Company (泉州市果品公司) and was the officer at the Guopin Trading Company (果品貿易公司). The principal business of these two companies was trading of fruits. In July 1994, Mr. Shen joined our Group and was an assistant to the president. He was promoted in 2005 to the vice general manager. In 2008, he was appointed as the vice president of our Group. Mr. Shen holds the title intermediate economist (中級經濟師) awarded by Fujian Province Department of Personnel (福建省人事廳) in November 2008.

EXECUTIVE DIRECTORS (Continued)

Mr. Chen Jiang (陳江), aged 49, is an executive Director of our Company. He is principally responsible for business expansion and finance management in the Group. He completed a course programme in Economic Information and Computing Application from Southwest University of Science and Technology (西南科技大學) in the PRC. Mr. Chen has served in senior management position in companies for finance leasing and trading for over 20 years. Mr. Chen had served as the vice chairman and is currently the executive chairman of Chengdu Enterprise Credit Assessment and Integrity Evaluation Association (成都企業信用評估與誠信評價協會) (the "Association") and was appointed as a specialist of the Review Committee of the Association in 2012. Mr. Chen was an executive director of Co-Prosperity Holdings Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 707), from 15 April 2015 to 3 March 2016. From 7 August 2015 to 2 December 2016, he was an executive director of China Ocean Fishing Holdings Limited ("China Ocean Fishing", previously known as Sky Forever Supply Chain Management Group Limited), the shares of which are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8047). He was also the chairman of the board and co-chief executive officer of China Ocean Fishing from 4 May 2016 to 7 September 2016 and from 7 September 2016 to 2 December 2016, respectively.

Mr. Xu Qiang (徐強), aged 34, is an executive Director of our Company. He is principally responsible for business expansion and finance management in the Group. He graduated from Zhongnan University of Economics and Law (中南財經政法大學) in the PRC, studying International Economic Law. He is a Chartered Financial Practitioner of the Asia Pacific Financial Services Association (APFinSA). He was the investment director of asset management department in Jialian Rongfeng Investment Development Management Limited (嘉聯融豐投資發展管理有限公司) from 2009 to 2012 and involved in private equity, initial public offerings and mergers and acquisitions projects. From 2012 to 2015, Mr. Xu served as a fund manager in an offshore fund and was responsible for managing and hedging of international derivatives products. Mr. Xu is also familiar with asset management, risk management and business strategic planning.

Mr. Zheng Hebin (鄭鶴斌), aged 46, is an executive Director of our Company and the chief research and development officer of our Group. He is responsible for product research and development. He served the development department of Fuzhou Gaodeng Artefact Company Limited (福州高登工藝品有限公司), where he was responsible for designing products. He was the manager of the development department of Fuqing Fuhua Artefact Company Limited (福清複華工藝品有限公司). Mr. Zheng joined our Group in July 1997 as the manager of our design team. He was promoted in March 2005 to be the chief officer of our research and development team. Mr. Zheng has participated in the development of fireplace of our Group since 2005.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Dai Jianping (戴建平), aged 61, was appointed as our independent non-executive Director on 1 December 2013. Mr. Dai graduated from Fujian Province Adult College (福建省成人中等專業學校) with a major in urban construction in 1988. He was an engineer qualified by the Fujian Province Department of Personnel (福建省人事廳) in November 1995. Since 2000, Mr. Dai has been serving as a vice general manager of Quanzhou Dahua Property Development Co., Ltd (泉州大華房地產開發有限公司). He was awarded the Temporary Certificate of Registration of Constructor of the PRC (中華人民共和國一級建造師臨時執業證書) by the Ministry of Housing and Urban-Rural Construction (中華人民共和國住房和城鄉建設部) in March 2008. In November 2008, Mr. Dai was awarded the title person-in-charge of project (項目負責人) by the Fujian Province Department of Construction (福建省建設廳).

Mr. Ng Wing Keung (伍永強), aged 48, was appointed as our independent non-executive Director on 1 December 2013. Mr. Ng is a practising certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He worked in Li, Tang, Chen & Co. from August 1993 to March 2001 and started his own audit firm in June 2001. Mr. Ng has been practising as certified public accountant in Hong Kong over 10 years and is currently a managing director of KTO CPA Limited. From 10 August 2012 to 15 October 2013, Mr. Ng was the non-executive director of Peace Map Holding Limited (stock code: 402.HK).

Ms. Sun Kam Ching (孫錦程), aged 45, was appointed as our independent non-executive Director on 1 December 2013. Ms. Sun received a bachelor's degree in business administration from Huaqiao University (華僑大學) in 1994. Ms. Sun has over 15 years of experience in business administration and financial management. Ms. Sun joined Jinjiang Aile Group (晉江愛樂集團) ("Jinjiang Aile") in 1996 and held various positions in Jinjiang Aile, including head of the sales department of Jinjiang Aile Shoes and Clothing Co., Ltd. (晉江愛樂鞋服公司), a subsidiary of Jinjiang Aile, from 1996 to 2000, the chief sales planning officer of Jinjiang Aile since 2003, and the chief financial officer of Jinjiang Aile since 2005. Ms. Sun has also been responsible for the image consultancy of Jinjiang Aile and is involved in the management of certain subsidiaries of Jinjiang Aile, including Jinjiang Aile Holiday Hotel (晉江愛樂假日酒店) and Shishi Aile Holiday Hotel (石獅愛樂假日酒店) since 2000. Ms. Sun attended the training courses for independent non-executive Director conducted by the Shenzhen Stock Exchange in 2008. Ms. Sun has been appointed as an independent non-executive director of Labixiaoxin Snack Group Limited (stock code: 1262.HK) since 2011.

SENIOR MANAGEMENT

Mr. Hui Hung Kwan (許鴻群), aged 46, has been the chief financial officer of our Group since June 2013 and is responsible for our Group's financial planning and strategy. Mr. Hui graduated from The Chinese University of Hong Kong (香港中文大學) with a bachelor's degree in business administration in 1994. Mr. Hui has been a member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants since 1997 and 2002, respectively. Mr. Hui has ten years' experience in the auditing profession. Prior to joining our Group, Mr. Hui was the audit manager of Li, Tang, Chen & Co., CPA, an accounting firm in Hong Kong from 1994 to 2004. Mr. Hui was the chief financial officer of C&G Environmental Protection Holdings Limited, a company listed on the main board of Singapore Exchange (stock code: SES: D79), from 2004 to October 2010. From November 2010 to December 2012, Mr. Hui was the chief financial officer of Premiere Eastern Energy Pte. Ltd. and was responsible for financial and capital market management. From July 2009 to June 2015, Mr. Hui was an independent non-executive director of TUS International Limited (啟迪國際有限公司) (formerly known as Jinheng Automotive Safety Technology Holdings Limited (錦恒汽車安全技術控股有限公司)), a company listed on the Stock Exchange (stock code: 872.HK).

Mr. Yang Dilin (楊的林), aged 53, has been the vice financial officer of our Group since March 2012 and is responsible for day-to-day financial affairs of our Group. Mr. Yang attended The Party School of Anhui Provincial Committee of C.P.C. (中共安徽省委黨校) from September 1998 to July 2001, majoring in law. Mr. Yang is a qualified accountant in China. Prior to joining our Group, Mr. Yang served the Susong Finance Bureau (宿松縣財政局) between July 1983 and September 2000. He worked at Shenzhen Liwei Electronic Company Limited (深圳力偉電子有限公司) from June 2005 to April 2010 as the chief financial officer. From May 2010 to December 2011, Mr. Yang was the manager of Jomoo Group Co., Ltd. (九牧集團有限公司) and was responsible for budgeting.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of China Creative Global Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Creative Global Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 107, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- Impairment of property, plant and equipment
- Recoverability of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment	
Refer to Notes 5.1 and 15 to the consolidated financial statements. As at 31 December 2017, the Group had property, plant and equipment before impairment provision of approximately RMB414.4 million and RMB240.8 million located in Anhui and Quanzhou, the People's Republic of China, respectively. For the year ended 31 December 2017, the Group's operations in Anhui and Quanzhou, which represent separate cash generating units ("CGUs"), have been making losses and management considers that there is an indicator that property, plant and equipment located in Anhui and Quanzhou may be impaired. Therefore, management has performed an impairment assessment on the property, plant and equipment of the CGUs. In view of the current status of the CGUs, management considered that the recoverable amount of the CGUs calculated based on fair value less costs of disposal would be higher than the amount estimated by using value-in-use calculation. Therefore, management decided to determine the recoverable amount of the CGUs based on fair value less costs of disposal. To determine the recoverable amount, management has engaged an independent professional valuer ("Valuer") to perform a valuation, taking into account the current status of the assets and market price/transactions for similar assets.	Our procedures in relation to management's impairment assessment of property, plant and equipment included: – Understanding the approach and assumptions used by management in determining the recoverable amount for the property, plant and equipment of the CGUs; – Assessing the competence, independence and integrity of the Valuer; – Obtaining and reading the valuation report issued by the Valuer for the property, plant and equipment of the CGUs and discussing with the Valuer to understand the methodology and assumptions used; – Performing sample tests on the completeness of the information of the property, plant and equipment of the CGUs provided to the Valuer by management; and – Assessing the reasonableness of the key assumptions, including disposal cost, and comparable transactions used in the valuation process by conducting independent market research. We found the judgements and assumptions used in the impairment assessment of the property, plant and equipment of the CGUs were supportable in light of the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Based on the result of the assessment, the recoverable amounts of the assets in Anhui and Quanzhou are lower than their carrying amount by approximately RMB27.7 million and RMB25.4 million, respectively, and impairment provisions of corresponding amounts have been made accordingly. We focused on this area because of the significant judgements and estimates involved in the impairment assessment by management.	
Recoverability of trade receivables Refer to Notes 5.3 and 20 to the consolidated financial statements. As at 31 December 2017, the Group had trade receivables of RMB92.2 million, of which RMB46.9 million was past due and a provision for doubtful debts of RMB2.8 million has been made. Management is required to exercise significant judgement in assessing the recoverability of the trade receivables. In making its judgement, management considers a wide range of factors such as payment trends, results of follow-up procedures performed by sales personnel, and customers' financial position. We focused on this area because of the size of the balance and significant judgements made by the management in assessing the recoverability of trade receivables.	Our procedures in relation to management's assessment on the recoverability of trade receivables included: – Understanding and evaluating the design and operating effectiveness of the Group's credit controls; – Checking the accuracy of the aging profile of the trade receivables (which is one of the factors used by management in assessing the recoverability of trade debtors) to sales invoices on a sample basis; – Testing the settlements made by the customers subsequent to the year end date by tracing to the corresponding bank statements on a sample basis; and – Discussing with management about the results of follow-up procedures performed by sales personnel, the latest financial position of the customers and management's assessment on the recoverability of trade receivables. Based on the above, we found that the significant judgements made by management is reasonable and properly supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cecilia Lai Ting Yau.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Revenue	7	147,806	349,744
Cost of sales	8	(119,574)	(257,246)
Gross profit		28,232	92,498
Selling and distribution costs	8	(13,778)	(27,466)
Administrative expenses	8	(74,032)	(79,467)
Impairment provision of property, plant and equipment	15	(53,100)	(54,039)
Impairment provision of investment in an associate	18	(10,335)	–
Fair value loss on an investment property	16	(40,400)	(12,000)
Other income	7	12,336	4,662
Other losses – net	10	(848)	(775)
Operating loss		(151,925)	(76,587)
Finance costs	11	(3,584)	(16,254)
Share of loss of an associate	18	(13,285)	(533)
Loss before income tax		(168,794)	(93,374)
Income tax expense	12	(5,758)	(2,144)
Loss and total comprehensive loss for the year attributable to equity holders of the Company		(174,552)	(95,518)
Loss per share for loss attributable to equity holders of the Company – Basic and diluted (expressed in RMB per share)	13	(0.09)	(0.05)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**548,049**	627,856
Investment property	16	**70,000**	110,400
Land use rights	17	**182,952**	205,224
Investment in an associate	18	**–**	210,820
Prepayments	21	**333,612**	321,360
Goodwill	32	**9,509**	–
		1,144,122	1,475,660
Current assets			
Inventories	19	**14,141**	11,984
Trade receivables	20	**92,176**	71,737
Deposits, prepayments and other receivables	21	**73,147**	8,651
Cash and cash equivalents	22	**777,201**	817,213
		956,665	909,585
Assets classified as held for sale	23	**187,200**	89,752
		1,143,865	999,337
Total assets		**2,287,987**	2,474,997
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	24	**164**	160
Share premium	24	**702,809**	693,494
Reserves		**1,385,259**	1,559,811
Total equity		**2,088,232**	2,253,465

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	27	**129,762**	138,071
Deferred tax liabilities	28	**6,133**	5,377
		135,895	143,448
Current liabilities			
Trade and other payables	26	**45,244**	37,387
Borrowings	27	**18,000**	38,000
Current income tax liabilities		**616**	2,697
		63,860	78,084
Total liabilities		**199,755**	221,532
Total equity and liabilities		**2,287,987**	2,474,997

The consolidated financial statements on pages 44 to 107 were approved for issue by the Board of Directors on 28 March 2018 and were signed on its behalf.

Chen Fanglin **Shen Jianzhong**

The notes on pages 49 to 107 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Share capital RMB'000 (Note 24)	Share premium RMB'000 (Note 24)	Reserves: Capital reserve RMB'000 (Note 25(a))	Reserves: Statutory reserve RMB'000 (Note 25(b))	Reserves: Retained earnings RMB'000	Reserves: Revaluation reserve RMB'000	Total RMB'000
Balances as at 1 January 2016		155	665,621	406,736	143,183	1,129,191	1,642	2,346,528
Comprehensive income								
Loss for the year		–	–	–	–	(95,518)	–	(95,518)
Transactions with owners:								
Transfer to statutory reserve	25	–	–	–	995	(995)	–	–
Issue of new shares	24	5	27,873	–	–	–	–	27,878
Dividend related to 2015 declared in 2016	14	–	–	–	–	(25,423)	–	(25,423)
		5	27,873	–	995	(26,418)	–	2,455
Balances as at 31 December 2016		160	693,494	406,736	144,178	1,007,255	1,642	2,253,465
Comprehensive income								
Loss for the year		–	–	–	–	(174,552)	–	(174,552)
Transactions with owners:								
Issue of new shares	24	4	9,315	–	–	–	–	9,319
Balances as at 31 December 2017		164	702,809	406,736	144,178	832,703	1,642	2,088,232

The notes on pages 49 to 107 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	30	**(33,204)**	249,286
Interest paid		**(9,715)**	(7,001)
Income tax paid		**(2,263)**	(25,783)
Net cash (used in)/generated from operating activities		**(45,182)**	216,502
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,383)**	(13,972)
Prepayments for property, plant and equipment and land use rights		**–**	(47,000)
Prepayments for construction cost		**(12,252)**	–
Proceeds from disposal of property, plant and equipment		**393**	–
Refund for a commercial building		**–**	19,760
Proceeds from disposal of assets classified as held for sale		**41,000**	9,900
Land appreciation tax paid		**(4,820)**	–
Payments of other PRC taxes in relation to disposal of assets		**(1,894)**	–
Investment in an associate		**–**	(183,475)
Interest received		**3,789**	3,972
Receipts of cash from acquisition of a subsidiary (Note 32)		**8**	–
Net cash generated from/(used in) investing activities		**24,841**	(210,815)
Cash flows from financing activities			
Proceeds from borrowings		**48,000**	177,104
Repayments of borrowings		**(68,000)**	(57,000)
Dividends paid		**–**	(25,423)
Net cash (used in)/generated from financing activities		**(20,000)**	94,681
Net (decrease)/increase in cash and cash equivalents		**(40,341)**	100,368
Cash and cash equivalents at 1 January		**817,213**	720,178
Exchange gains/(losses) on cash and cash equivalents		**329**	(3,333)
Cash and cash equivalents at 31 December	22	**777,201**	817,213

The notes on pages 49 to 107 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated and have been approved for issue by the Board of Directors on 28 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property and assets classified as held for sale, which are carried at fair value.

Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Recognition of deferred tax assets for unrealized losses – Amendments to Hong Kong Accounting Standard ("HKAS") 12;
- Annual improvements to HKFRSs 2014 – 2016 cycle – Amendments to HKFRS 12; and
- Disclosure initiative – Amendments to HKAS 7.

The adoption of these amendments did not have material impact on the financial statements for the current year. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(b) New standards, amendments to standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below.

HKFRS 9, "Financial instruments"

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- debt instruments currently classified as held-to-maturity and measured at amortized cost which meet the conditions for classification at amortized cost under HKFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(b) New standards, amendments to standards and interpretations not yet adopted (Continued)

HKFRS 15, "Revenue from contracts with customers"

Nature of change

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognized in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16, "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(b) New standards, amendments to standards and interpretations not yet adopted (Continued)

HKFRS 16, "Leases" (Continued)

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB161,000.

The Group has not yet assessed the adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards and interpretations that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (Note 2.3).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(i) Subsidiaries (Continued)

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associate

Associate is an entity over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting, after initially being recognized at cost.

(iii) Equity accounting

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from an associate are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the entity. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

If the ownership interest in a an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, except for business combinations under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations (Continued)

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

2.4 Separate financial statements

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

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within "finance costs". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within "other losses – net".

(c) Group companies

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

- assets and liabilities for each statement of financial position of the Group's entities are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income of the Group's entities are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

2.7 Property, plant and equipment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

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

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

2.8 Land use rights

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

2.9 Investment property

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

Investment property comprises land and buildings held under operating leases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Investment property (Continued)

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

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

2.10 Goodwill

Goodwill is measured as described in Note 2.3. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

2.11 Impairment of non-financial assets

Goodwill that has an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Assets classified as held for sale (Continued)

An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset is recognized at the date of derecognition.

Non-current assets are not depreciated or amortized while they are classified as held for sale. Non-current assets classified as held for sale are presented separately from the other assets in the consolidated statement of financial position.

2.13 Financial assets

(a) Classification

The Group's financial assets are mainly loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's financial assets comprise trade and other receivables (Notes 20 and 21), cash and cash equivalents (Note 22) in the consolidated statement of financial position.

(b) Recognition and measurement

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

2.14 Impairment of financial assets carried at amortized cost

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables, the estimated impairment losses are recognized in a separate provision for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or delinquency in payments (more than 90 days overdue).

Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognized in profit or loss within "administrative expenses". Subsequent recoveries of amounts previously written off are credited against "administrative expenses".

2.15 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due for settlement within 30 to 90 days and therefore are all classified as current.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2.13 for further information about the Group's accounting for trade receivables and Note 2.14 for a description of the Group's impairment policies.

2.17 Cash and cash equivalents

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

2.18 Share capital

Ordinary shares are classified as equity.

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

2.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.20 Borrowings and borrowing costs

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

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

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

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

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Provisions

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

2.23 Employee benefits

(a) Pension obligations

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

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

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

(b) Employee leaves entitlement

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Employee benefits (Continued)

(c) Bonus plans

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

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of value added taxes, returns and trade allowances.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

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

(b) Interest income

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

(c) Rental income

Rental income from investment property is recognized when it is probable that future economic benefits will flow to the Group, taking into consideration of the credit quality and settlement history of the tenants, and on a straight-line basis over the term of the lease.

2.25 Leases – as a lessee

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Research and development costs

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

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

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

2.27 Dividend distribution

Dividend distribution to the company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.28 Contingent liabilities and contingent assets

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Contingent liabilities and contingent assets (Continued)

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign currency risk

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

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

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

As at 31 December 2017, if RMB had weakened/strengthened by 5% against HKD and USD, with all other variables held constant, the Group's post-tax loss for the year would have been approximately RMB5,618,000 higher/lower (2016: RMB5,464,000 higher/lower), mainly as a result of net foreign exchange losses/gains on translation of HKD and USD denominated cash and cash equivalents, trade and other receivables, borrowings and other payables.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

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

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

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

As at 31 December 2017, if interest rates on cash and cash equivalents and borrowings with floating rates had been 100 basis-points higher/lower with all other variables held constant, the Group's post-tax loss for the year would have been approximately RMB6,319,000 higher/lower (2016: RMB6,369,000 higher/lower).

(b) Credit risk

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

For credit risks in respect of cash and cash equivalents, the Group managed the risk by placing cash and cash equivalents with major local banks and state-owned banks in the PRC and Hong Kong with good credit standing. For credit risk in respect of trade receivables from customers and other receivables, the Group has policies in place to ensure that sales or transactions are made to reputable and credit-worthy customers or counter-parties with an appropriate financial strength and credit history. The management is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

In addition, The Group actively monitors the financial situations of its customers who are affected by the market downturn by regularly reviewing the credit profiles, business prospects, background and financial capabilities of the customers. As a result, management has made a provision for doubtful debts of RMB2,752,000 (2016: RMB2,378,000) for customers during the year ended 31 December 2017.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

As at 31 December 2017, there were 3 customers (2016: 2) which individually contributed over 10% of the Group's trade receivables. The amount of trade receivables from these customers amounted to 91% (2016: 27%) of the Group's total trade receivables. The Group had assessed the credit quality of these customers, taking into account their financial positions, past experience and other factors, and considered that the credit risk is limited.

(c) Liquidity risk

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

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the end of reporting periods to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year or repayable on demand RMB'000	Between 1 to 2 years RMB'000	Between 2 to 5 years RMB'000	Over 5 years RMB'000	Carrying amount RMB'000
At 31 December 2017					
Trade and other payables (excluded other tax payables and deposits received in advance)	44,040	–	–	–	44,040
Borrowings	27,813	126,009	1,647	9,717	147,762
	71,853	126,009	1,647	9,717	191,802

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	Less than 1 year or repayable on demand RMB'000	Between 1 to 2 years RMB'000	Between 2 to 5 years RMB'000	Over 5 years RMB'000	Carrying Amount RMB'000
At 31 December 2016					
Trade and other payables (excluded other tax payables and deposits received in advance)	36,578	–	–	–	36,578
Borrowings	50,247	9,875	136,732	11,043	176,071
	86,825	9,875	136,732	11,043	212,649

3.2 Capital risk management

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

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

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

	2017 RMB'000	2016 RMB'000
Total debt	**147,762**	176,071
Total equity	**2,088,232**	2,253,465
Gearing ratio	**7.1%**	7.8%

As at 31 December 2017, the decrease in gearing ratio was mainly resulted from decrease in borrowings.

4 FAIR VALUE ESTIMATION

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

Assets and liabilities held by the Group using the fair value method include investment property and assets classified as held for sale (Notes 16 and 23). In addition, management also performed impairment assessments on the Group's property, plant and equipment in Anhui and Quanzhou and investment in an associate, the assessments involved fair value method. Details of which are disclosed in Notes 15 and 18.

For other current financial assets of the Group, including trade and other receivables, cash and cash equivalents, and current financial liabilities of the Group including trade and other payables and short-term borrowings approximate their fair values due to their short term maturities.

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

5.1 Impairment of non-financial assets

The Group follows the guidance of HKAS 36 "Impairment of Assets" to determine when assets are impaired, which requires significant judgment.

For the year ended 31 December 2017, the Group's operations in Anhui and Quanzhou, the PRC respectively, which represent separate cash generating units ("CGUs"), have been making losses and management considers that there is an indicator that property, plant and equipment located in Anhui and Quanzhou may be impaired. Therefore, management has performed an impairment assessment on the property, plant and equipment of the CGUs and an impairment provision of approximately RMB27,745,000 and RMB25,355,000 for the property, plant and equipment in Anhui and Quanzhou, respectively have been made as at 31 December 2017 (2016: RMB54,039,000 for the property, plant and equipment in Anhui). Details of the assessment are disclosed in Note 15.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

5.2 Useful lives of property, plant and equipment

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

5.3 Provision for impairment of receivables and deposits

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

5.4 Income taxes and deferred income taxes

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

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

If those undistributed earnings of the PRC subsidiaries are considered to be repatriated and distributed by way of dividends, deferred income tax liabilities would have been increased by approximately RMB47,700,000 (2016: RMB49,688,000).

5.5 Fair value of investment property

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

5.6 Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates. Details of key assumptions are disclosed in Note 32.

6 SEGMENT REPORTING

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

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

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

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

Other activities primarily relate to investment in an associate, provision of corporate services for investment holding companies and holding corporate assets and liabilities. Corporate assets and liabilities mainly include investment property held for rental income, investment in an associate, property, plant and equipment and land use rights for corporate use. These activities are excluded from the reportable operating segments.

Segment assets consist primarily of certain property, plant and equipment, land use rights, inventories, trade receivables, deposits, prepayments and other receivables and cash and cash equivalents. Investment property, investment in an associate and other assets for corporate functions are grouped under 'others'.

Segment liabilities consist primarily of trade and other payables. They exclude current income tax liabilities, deferred income tax liabilities, general borrowings and other liabilities for corporate functions are grouped under 'others'.

All non-current assets of the Group are located in the PRC.

6 SEGMENT REPORTING (Continued)

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

	Electric fireplaces and air purifiers RMB'000	Home decor products RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2017:				
Segment revenue				
– PRC	30,128	37,528	–	67,656
– International	73,369	7,388	–	80,757
	103,497	44,916	–	148,413
Less: Inter-segment revenue	(368)	(239)	–	(607)
Revenue from external customers	103,129	44,677	–	147,806
Segment results	(93,088)	243	(58,455)	(151,300)
Unallocated expense				(625)
Finance costs				(3,584)
Share of loss of an associate				(13,285)
Loss before income tax				(168,794)
Income tax expense				(5,758)
Loss for the year				(174,552)
Other segment items:				
Additions to:				
Property, plant and equipment	1,349	5	29	1,383
Depreciation and amortization	28,014	1,489	625	30,128
Impairment provision of property, plant and equipment	52,557	543	–	53,100
Impairment provision of investment in an associate	–	–	10,335	10,335
Fair value loss on an investment property	–	–	40,400	40,400
Interest income	689	660	2,440	3,789
As at 31 December 2017:				
Segment assets	1,619,510	400,730	267,747	2,287,987
Segment liabilities	22,839	16,038	160,878	199,755

6 SEGMENT REPORTING (Continued)

	Electric fireplaces and air purifiers RMB'000	Home decor products RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2016:				
Segment revenue				
– PRC	144,403	112,541	–	256,944
– International	57,221	47,323	–	104,544
	201,624	159,864	–	361,488
Less: Inter-segment revenue	–	(11,744)	–	(11,744)
Revenue from external customers	201,624	148,120	–	349,744
Segment results	(49,982)	(2,677)	(23,261)	(75,920)
Unallocated expense				(667)
Finance costs				(16,254)
Share of loss of an associate				(533)
Loss before income tax				(93,374)
Income tax expense				(2,144)
Loss for the year				(95,518)
Other segment items:				
Additions to:				
Property, plant and equipment	17,572	413	78	18,063
Depreciation and amortization	27,064	1,709	667	29,440
Impairment provision of property, plant and equipment	54,039	–	–	54,039
Fair value loss on an investment property	–	–	12,000	12,000
Interest income	850	834	2,288	3,972
As at 31 December 2016:				
Segment assets	1,654,903	496,418	323,676	2,474,997
Segment liabilities	18,976	15,389	187,167	221,532

6 SEGMENT REPORTING (Continued)

Revenues of approximately RMB47,058,000 and RMB71,404,000 (2016: Nil) are derived from two (2016: Nil) individual external customers which contributed more than 10% revenue of Group's revenue. These revenues are attributed to the electric fireplaces and air purifiers segment and home decor segment.

7 REVENUE AND OTHER INCOME

	2017 RMB'000	2016 RMB'000
Sales of products		
– Electric fireplaces	**102,499**	193,506
– Air purifiers	**630**	8,118
– Home decor products (exclude humidifiers)	**44,677**	147,831
– Humidifiers	**–**	289
	147,806	349,744
Other income		
– Interest income	**3,789**	3,972
– Rental income	**8,547**	690
	12,336	4,662

8 EXPENSES BY NATURE

	2017 RMB'000	2016 RMB'000
Raw materials used (note (i))	**76,744**	170,731
Packaging and other consumables used	**8,281**	19,328
Depreciation of property, plant and equipment	**25,872**	25,129
Amortization of land use rights	**4,256**	4,311
Employee benefit expenses (note (i))	**56,339**	79,224
Other PRC taxes	**7,091**	7,652
Auditor's remuneration – audit services	**2,422**	3,424
Legal and professional fees	**1,262**	2,239
Bad debts written-off	**–**	165
Provision for doubtful debts	**2,752**	2,378
Inventories written-off	**634**	6,644
Delivery expenses	**3,733**	4,628
Electricity and utilities	**2,331**	4,616
Operating lease rentals	**708**	1,952
Travelling expenses	**999**	1,209
Advertising and promotion expenses	**1,200**	11,060
Product consultation expenses (note (i))	**–**	3,774
Direct operating expenses in respect of investment property that generates rental income	**319**	319
Other expenses	**12,441**	15,396
Total cost of sales, selling and distribution costs and administrative expenses	**207,384**	364,179

Note:

(i) Research and development expenses comprise of:

	2017 RMB'000	2016 RMB'000
Employee benefit expenses	**5,323**	5,866
Cost of raw materials used	**7,623**	5,234
Product consultation expense (note)	**–**	3,774
	12,946	14,874

Note:

It mainly represents consultation services provided by University of Shanghai for Science and Technology for product design and development and the service contract has been completed during the year ended 31 December 2016.

9 EMPLOYEE BENEFIT EXPENSES

The analysis of employee benefit expenses is as follows:

	2017 RMB'000	2016 RMB'000
Wages and salaries (including discretionary bonuses) and other benefits	**42,135**	60,095
Social security and pension costs	**14,204**	19,129
	56,339	79,224

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

	2017 RMB'000	2016 RMB'000
Cost of sales	**28,942**	49,519
Administrative expenses	**25,088**	26,266
Selling and distribution costs	**2,309**	3,439
	56,339	79,224

(a) Five highest paid individuals

During the year, the five individuals whose emoluments were the highest in the Group included 4 directors (2016: 3), whose emoluments were reflected in the analysis shown in Note 35. The emoluments paid or payable to the remaining individuals during the year were as follows:

	2017 RMB'000	2016 RMB'000
Wages and salaries (including discretionary bonuses) and other benefits	**519**	1,438
Social security and pension costs	**16**	31
	535	1,469

9 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals (Continued)

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

	2017 Number	2016 Number
Emolument band (in HKD)		
Nil – HKD1,000,000	1	2

10 OTHER LOSSES – NET

	2017 RMB'000	2016 RMB'000
Net foreign exchange loss	(1,924)	(775)
Gain on disposal of assets classified as held for sale	5,458	–
Loss on disposal of property, plant and equipment	(1,825)	–
Loss on disposal of a land use right	(663)	–
Other PRC taxes in relation to the disposal of assets	(1,894)	–
	(848)	(775)

11 FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest expense on borrowings	13,359	10,784
Net foreign exchange (gain)/loss	(9,775)	6,017
Less: interest capitalized (note)	–	(547)
	3,584	16,254

Note:

For the year ended 31 December 2016, interest was capitalized at the weighted average rate of 3.56%.

12 INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current income tax	**2,154**	4,515
Withholding tax	**827**	3,154
(Over)/under provision in prior years	**(2,799)**	484
Land appreciation tax	**4,820**	–
Deferred income tax	**756**	(6,009)
Total taxation charge	**5,758**	2,144

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group does not have any assessable profits in Hong Kong for the year (2016: Nil).

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

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

Pursuant to the New EIT Law, with respect to a new and high technology enterprise, the tax levied on its income will be charged at a preferential rate of 15% after obtaining the High New Technology Enterprise Certificate (the "Certificate") and completing the tax reduction and exemption filing with the tax authorities. Allen Electronics Co., Ltd. Fujian obtained the Certificate on 5 September 2013 and renewed the Certificate on 1 December 2016. The Certificate will expire on 30 November 2019. Allen Electronics Co., Ltd. Anhui obtained the Certificate on 17 November 2017 and will expire on 7 November 2020. Allen Electronics Co., Ltd. Anhui will be charged at a preferential rate of 15% during the year ending 31 December 2018.

(iv) Withholding tax on distributed profits

Pursuant to the New EIT Law, a 10% withholding tax is levied on dividends declared by PRC companies to their foreign investors. A lower withholding tax rate of 5% is applicable if direct foreign investors with at least 25% equity interest in the PRC company are incorporated in Hong Kong and meet the relevant requirements pursuant to the tax arrangement between the PRC and Hong Kong. Since the equity holder of the PRC subsidiaries of the Company is a Hong Kong incorporated company, the Company has used 5% to provide for deferred tax liabilities on retained earnings which are anticipated to be distributed as at 31 December 2017 and 2016.

12 INCOME TAX EXPENSE (Continued)

(v) Land appreciation tax

Land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of land less deductible expenditures including lease charges of land use rights and all development expenditures.

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

	2017 RMB'000	2016 RMB'000
Loss before income tax	(168,794)	(93,374)
Add: share of loss of an associate	13,285	533
	(155,509)	(92,841)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(35,759)	(19,102)
Effects of the preferential tax rates	2,991	(989)
Expenses not deductible for taxation purposes	421	588
Temporary difference not recognized	13,275	13,510
Tax losses not recognized	23,187	6,999
(Over)/under provision in prior years	(2,799)	484
Provision for land appreciation tax	4,820	–
Tax effect of land appreciation tax	(1,205)	–
Withholding tax	827	654
Tax charge	5,758	2,144

13 LOSS PER SHARE

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

	2017 RMB'000	2016 RMB'000
Loss attributable to equity holders of the Company	(174,552)	(95,518)
Weighted average number of ordinary shares in issue (in thousands)	2,034,247	1,983,005
Basic loss per share (expressed in RMB per share)	(0.09)	(0.05)

Note:

Diluted loss per share for the years ended 31 December 2016 and 2017 equal the basic loss per share as there were no dilutive potential ordinary shares outstanding during the years.

14 DIVIDEND

On 22 March 2016, the Board of Directors proposed a final dividend of HKD1.5 cent per ordinary share, totaling HKD29,700,000 (equivalent to approximately RMB25,423,000). Such dividend was approved by the shareholders at the annual general meeting of the Company on 10 May 2016 and paid in July 2016.

The directors do not recommend the payment of a final dividend for the years ended 31 December 2017 and 2016.

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016						
Cost	686,411	37,280	3,113	2,167	14,400	743,371
Accumulated depreciation and impairment loss	(36,993)	(14,372)	(1,589)	(1,456)	–	(54,410)
Net book amount	649,418	22,908	1,524	711	14,400	688,961
Year ended 31 December 2016						
Opening net book amount	649,418	22,908	1,524	711	14,400	688,961
Additions	–	203	78	–	17,782	18,063
Transfer	32,182	–	–	–	(32,182)	–
Depreciation (note (a))	(21,165)	(3,245)	(420)	(299)	–	(25,129)
Impairment loss (note (b))	(54,039)	–	–	–	–	(54,039)
Closing net book amount	606,396	19,866	1,182	412	–	627,856
As at 31 December 2016						
Cost	718,593	37,483	3,191	2,167	–	761,434
Accumulated depreciation and impairment loss	(112,197)	(17,617)	(2,009)	(1,755)	–	(133,578)
Net book amount	606,396	19,866	1,182	412	–	627,856
Year ended 31 December 2017						
Opening net book amount	606,396	19,866	1,182	412	–	627,856
Additions	–	1,353	30	–	–	1,383
Disposals	(1,325)	(893)	–	–	–	(2,218)
Depreciation (note (a))	(22,044)	(3,174)	(422)	(232)	–	(25,872)
Impairment loss (note (b))	(53,100)	–	–	–	–	(53,100)
Closing net book amount	529,927	17,152	790	180	–	548,049
As at 31 December 2017						
Cost	716,343	37,573	3,221	2,167	–	759,304
Accumulated depreciation and impairment loss	(186,416)	(20,421)	(2,431)	(1,987)	–	(211,255)
Net book amount	529,927	17,152	790	180	–	548,049

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

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

	2017 RMB'000	2016 RMB'000
Cost of sales	7,442	7,522
Administrative expenses	18,430	17,564
Selling and distribution costs	–	43
	25,872	25,129

(b) As at 31 December 2017, the Group had property, plant and equipment before impairment provision of approximately RMB414,438,000 and RMB240,750,000 located in Anhui and Quanzhou, the PRC respectively. For the year ended 31 December 2017, the Group's operation in Anhui and Quanzhou, which represent separate Cash Generating Units ("CGUs"), have been making losses and management considers that there is an impairment indicator on property, plant and equipment in Anhui and Quanzhou. Therefore, management has performed an impairment assessment on the property, plant and equipment of the CGUs. In view of the current status of the CGUs, management considered that the recoverable amount of the CGUs calculated based on fair value less costs of disposal would be higher than the amount estimated by using value-in-use calculation. Therefore, management decided to determine the recoverable amount of the CGUs based on fair value less costs of disposal.

To determine the recoverable amount, management has engaged an independent professional valuer ("Valuer") to perform a valuation, taking into account the current status of the assets and market price or transactions for similar assets. The valuation is categorized under level 2 of the fair value hierarchy.

Based on the result of the assessment, the recoverable amount of the assets of the CGUs are lower than its carrying amount by RMB53,100,000 (2016: RMB54,039,000). Therefore, for the year ended 31 December 2017, management has provided an impairment provision of RMB53,100,000 (2016: RMB54,039,000) for the property, plant and equipment.

(c) As at 31 December 2016, bank borrowings are secured by certain property, plant and equipment with an aggregate net book value of approximately RMB101,825,000.

16 INVESTMENT PROPERTY

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

	2017 RMB'000	2016 RMB'000
At 1 January	110,400	122,400
Fair value loss	(40,400)	(12,000)
At 31 December	70,000	110,400

Investment property was valued at 31 December 2017 by an independent professionally qualified valuer, Roma Appraisals Limited, who is a member of the Hong Kong Institute of Surveyors and has appropriate qualifications and recent experiences in the valuation of similar properties.

16 INVESTMENT PROPERTY (Continued)

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

The valuation of the investment property as at 31 December 2017 is determined using income approach based on significant unobservable inputs and is recognized under level 3 of the fair value hierarchy. The directors and the valuer consider that it is appropriate to use income approach since management will hold the investment property for long-term rental yield and will not dispose of the investment property in the short run.

The valuation includes observable inputs of current average monthly rental of RMB29 (2016: RMB37) per square meter and unobservable inputs of reversionary yield of approximately 13% (2016: 13%), expected zero vacancy rate (2016: zero) and average monthly rental of RMB27 (2016: RMB26) per square meter during reversionary period. These assumptions are made by the valuer based on the risk profile of the property being valued.

17 LAND USE RIGHTS

	2017	2016
	RMB'000	RMB'000
At 1 January	**205,224**	209,535
Disposal	**(18,016)**	–
Amortization	**(4,256)**	(4,311)
At 31 December	**182,952**	205,224

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

18 INVESTMENT IN AN ASSOCIATE

The amount recognized in the consolidated statement of financial position is as follows:

	2017	2016
	RMB'000	RMB'000
At 1 January	**210,820**	–
Acquisition of interest in an associate	**–**	211,353
Share of loss	**(13,285)**	(533)
Impairment provision	**(10,335)**	–
Transfer to assets classified as held for sale	**(187,200)**	–
At 31 December	**–**	210,820

18 INVESTMENT IN AN ASSOCIATE (Continued)

During the year ended 31 December 2016, the Group acquired 49% equity interest in Radiant Forever Development Limited ("Radiant") from an independent third party. The acquisition was completed on 9 December 2016 and the total consideration was HKD236,500,000 (equivalent to RMB211,353,000) which included i) a cash consideration of HKD205,000,000 (equivalent to RMB183,475,000) and ii) 50,000,000 ordinary shares of the Company.

As at 31 December 2016, the management assessed that the Group had significant influence but not control over Radiant, as such, Radiant was accounted for as an associate of the Group under equity method.

During the year ended 31 December 2017, management has decided to dispose the investment. As a result, the investment in an associate has been transferred to assets classified as held for sale.

Set out below is the information of the associate of the Group which, in the opinion of the directors, is material to the Group. The associate listed below has share capital consisting solely of ordinary shares, which are held directly by the Group.

Nature of investment in an associate:

Name	Place of incorporation	Principal activities	Legal status	Paid up capital	Effective interest held as 2017	2016
Directly held by the Group:						
Radiant Forever Development Limited ("Radiant")	Samoa	Investment holding	Limited liability company	USD1,000,000	**49%**	49%

Radiant is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the associate.

Summarized consolidated financial information for Radiant

Set out below is the summarized consolidated financial information of Radiant which is accounted for by the Group using the equity method.

	(Unaudited) 2017 RMB'000	(Unaudited) 2016 RMB'000
Assets and liabilities as at 31 December		
Total current assets	**N/A**	84,103
Total non-current assets	**N/A**	718,026
Total current liabilities	**N/A**	653,132
Total non-current liabilities	**N/A**	–
Profit or loss for the year ended 31 December		
Revenue	**–**	46,311
Loss and total comprehensive loss for the year	**(27,112)**	(19,598)
Dividend received from associate	**–**	–

18 INVESTMENT IN AN ASSOCIATE (Continued)

Summarized consolidated financial information for Radiant (Continued)

The information above reflects the amounts presented in the financial statements of the associate (and not Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarized consolidated financial information

Reconciliation of the summarized consolidated financial information presented to the carrying amount of its interest in the associate:

	2016 RMB'000
Net assets as at acquisition date (Unaudited)	150,085
Loss for the period since acquisition (Unaudited)	(1,088)
Closing net assets	148,997
Interest in an associate (49%)	73,009
Goodwill	137,811
Carrying value	210,820

19 INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	3,349	4,139
Work in progress	5,782	4,542
Finished goods	5,010	3,303
	14,141	11,984

For the year ended 31 December 2017, the cost of inventories recognized as expense and included in cost of sales amounted to approximately, RMB115,143,000 (2016: RMB244,201,000).

20 TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	94,928	74,115
Less: provision for doubtful debts	(2,752)	(2,378)
	92,176	71,737

Movements of the provision for doubtful debts are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	2,378	–
Provision for impairment recognized during the year	2,752	2,378
Receivables written off during the year as uncollectible	(2,378)	–
At 31 December	2,752	2,378

Notes:

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

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

	2017 RMB'000	2016 RMB'000
0 to 30 days	12,850	10,874
31 to 60 days	20,739	14,315
61 to 90 days	20,977	12,548
Over 90 days	40,362	36,378
	94,928	74,115

(b) As at 31 December 2017, the Group's trade receivables of RMB45,265,000 (2016: RMB27,885,000) are neither past due nor impaired.

As at 31 December 2017, trade receivables of RMB46,911,000 (2016: RMB43,852,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these past due but not impaired trade receivables by overdue date is as follows:

	2017 RMB'000	2016 RMB'000
Past due by		
0 to 30 days	17,467	23,820
31 to 60 days	12,213	17,807
61 to 90 days	17,231	2,225
	46,911	43,852

20 TRADE RECEIVABLES (Continued)

Notes: (Continued)

(c) As at 31 December 2017, trade receivable of RMB2,752,000 (2016: RMB2,378,000) were impaired and provided for. During the year ended 31 December 2016, trade receivables of RMB165,000 were written off directly.

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

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

	2017 RMB'000	2016 RMB'000
RMB	65,167	30,015
USD	29,761	44,100
	94,928	74,115

21 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Current		
Deposits and prepayments	1,086	3,056
Receivables for disposal of assets classified as held for sale (note (a))	54,210	–
Receivables for disposal of a land use right (note (b))	17,353	–
Accrued rental income	–	5,093
Rental receivable	–	344
Others	498	158
	73,147	8,651
Non-current		
Prepayment for commercial buildings (note (c))	272,360	272,360
Prepayments for construction costs	12,252	–
Prepayments for property, plant and equipment and land use rights (note (d))	49,000	49,000
	333,612	321,360
Total	406,759	330,011

Notes:

(a) As at 31 December 2017, certain assets classified as held for sale amounting to RMB89,752,000 have been resumed by the local government of Quanzhou and the compensation amounting to RMB54,210,000 has not yet been received by the Group.

21 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) On 31 October 2017, the Group entered into a sales and purchase agreement with a related party to sell a land use right with a consideration of RMB17,353,000 in Quanzhou, the PRC and the balance has not yet been received by the Group (Note 33). The amount is unsecured, non-interest bearing, denominated in RMB and approximate the fair value.

(c) On 23 November 2015, the Group entered into a sales and purchase agreement with an independent third party to purchase commercial buildings and the respective land use rights with a total consideration of RMB292,120,000 in Anhui, the PRC. During the year ended 31 December 2016, a balance of RMB19,760,000 has been refunded to the Group due to modification of floor plan during construction. The construction of the commercial buildings and the transfer of ownership of these assets are expected to be completed in year 2018.

(d) On 28 November 2014, the Group entered into a sales and purchase agreement ("the agreement") with an independent third party ("the seller") to purchase certain land use rights and buildings in Quanzhou, the PRC, with a total consideration of RMB98,000,000. On 3 December 2014, the Group paid RMB49,000,000 as a prepayment to the seller. During the year ended 31 December 2015, the seller was not able to complete the registration of transfer of the land use rights and buildings to the Group. On 25 August 2015, the seller refunded RMB47,000,000 to the Group but refused to refund the remaining balance of RMB2,000,000 to the Group.

During the year ended 31 December 2015, the seller filed a dispute case to the People's Court of Quangang ("the court") in respect of this transaction against the Group. Subsequently, the Group filed a defense to the court on 30 October 2015. No legal proceeding had been commenced.

During the year ended 31 December 2016, the dispute has been resolved and management expects that this transaction will be completed in year 2018. As at 31 December 2016 and 2017, the Group paid a total of RMB49,000,000 as a prepayment to the seller.

(e) The carrying amounts of the Group's deposits and other receivables approximate their fair values due to short maturity date and are mainly denominated in RMB.

22 CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	777,201	817,213

(a) The carrying amounts of cash and cash equivalents of the Group are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	777,192	816,961
HKD	6	251
USD	3	1
	777,201	817,213

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

23 ASSETS CLASSIFIED AS HELD FOR SALE

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

The compensation of these properties and land use rights will be RMB109,552,000 according to the correspondences from the local government of Quanzhou and these properties and land use rights are classified as assets held for sale. The valuation was determined based on the compensation and was categorized in level 2 of the fair value hierarchy. During the years ended 31 December 2016 and 2017, assets amounting to RMB19,800,000 and RMB89,752,000 have been resumed by the local government of Quanzhou respectively.

During the year ended 31 December 2017, the directors considered that the business development and financial performance of the associate is unsatisfactory and decided to dispose the investment in the associate. Management has been in active discussions with the potential buyer for the disposal during the year ended 31 December 2017 and expected to complete the disposal within the next 12 months starting from 31 December 2017. As such, the investment in an associate has been classified as assets held for sale and recognized at fair value less cost to sale as at 31 December 2017. On 6 March 2018, the Group completed the disposal of investment in an associate.

The carrying amount of the investment in an associate was RMB197,535,000 and the consideration of the disposal has been concluded at a cash consideration of HKD225,000,000 (equivalent to RMB187,200,000) according to the sales and purchase agreement entered between the Group and the buyer. Impairment provision of RMB10,335,000 has been recognized in the profit or loss during the year ended 31 December 2017 accordingly. The valuation was categorized in level 3 of the fair value hierarchy.

	2017	2016
	RMB'000	RMB'000
At 1 January	**89,752**	109,552
Transfer	**187,200**	–
Disposal	**(89,752)**	(19,800)
At 31 December	**187,200**	89,752

As at 31 December 2016, certain assets classified as held for sale were pledged as securities for bank borrowings made available to the Group.

24 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	**Nominal value of ordinary shares**
	(thousands)	HKD
Authorized:		
At 31 December 2016 and 31 December 2017	10,000,000	1,000,000

24 SHARE CAPITAL AND SHARE PREMIUM (Continued)

	Number of ordinary shares	Nominal value of ordinary shares HKD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid:					
At 1 January 2016	1,980,000,000	198	155	665,621	665,776
Issue of new shares (Note (i))	50,000,000	5	5	27,873	27,878
At 31 December 2016	2,030,000,000	203	160	693,494	693,654
Issue of new shares (Note (ii))	50,000,000	5	4	9,315	9,319
At 31 December 2017	2,080,000,000	208	164	702,809	702,973

Note:

(i) On 9 December 2016, the Company issued 50,000,000 ordinary shares of HKD0.0001 each at a premium of HKD0.6299 which form part of the consideration for the acquisition of an associate during the year ended 31 December 2016. The premium on issue of these shares of HKD31,495,000 (equivalent to RMB27,873,000) was credited to the share premium account.

(ii) On 30 November 2017, the Company issued 50,000,000 ordinary shares of HKD0.0001 each at a premium of HKD0.2189 as a consideration for the acquisition of a subsidiary (Note 32). The premium on issue of these shares of HKD10,945,000 (equivalent to RMB9,315,000) was credited to the share premium account.

25 CAPITAL AND STATUTORY RESERVES

(a) Capital reserve represents the cash contributions to the Group through capital injection to the companies now comprising the Group by the controlling shareholder.

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

26 TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	28,424	20,350
Other tax payable	1,204	809
Salary and welfare payables	4,405	4,230
Retention fee payables	3,330	4,516
Interest payables	2,178	2,286
Amount due to the immediate holding company	–	1,119
Others	5,703	4,077
	45,244	37,387

Notes:

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

	2017 RMB'000	2016 RMB'000
0 to 30 days	7,215	10,169
31 to 60 days	3,081	6,930
61 to 90 days	11,914	2,733
Over 90 days	6,214	518
	28,424	20,350

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

	2017 RMB'000	2016 RMB'000
RMB	38,980	30,877
HKD	6,264	6,510
	45,244	37,387

27 BORROWINGS

	2017 RMB'000	2016 RMB'000
Non-current		
Bonds – unsecured (note (a))	129,762	138,071
Current		
Bank borrowings – secured (note (b))	–	38,000
Bank borrowings – unsecured (note (b))	18,000	–
	18,000	38,000
Total borrowings	147,762	176,071

An analysis of the Group's borrowings into principal amounts is as follows:

	2017 RMB'000	2016 RMB'000
Bonds – unsecured (note (a))	132,454	142,484
Bank borrowings – secured (note (b))	–	38,000
Bank borrowings – unsecured (note (b))	18,000	–
	150,454	180,484
Adjusted by: unamortized loan arrangement fees	(2,692)	(4,413)
	147,762	176,071

Notes:

(a) Bonds comprise principal amounts of:

(i) HKD7,000,000 (approximately RMB5,824,000) due in 2023 issued by the Company to an independent third party in March 2016. The bond is unsecured and bears interest at a fixed rate of 6% per annum;

(ii) HKD148,200,000 (approximately RMB123,302,000) due in 2019 issued by the Company to an independent third party in April 2016. The bond is unsecured and bears interest at a fixed rate of 7% per annum; and

(iii) HKD4,000,000 (approximately RMB3,328,000) due in 2024 issued by the Company to an independent third party in July 2016. The bond is unsecured and bears interest at a fixed rate of 6% per annum.

(b) As at 31 December 2017, the bank borrowings are either repayable within one year or repayable on demand and with fixed interest rate. As at 31 December 2016, the bank borrowings are either repayable within one year or repayable on demand and with floating interest rate. The carrying amounts of the Group's bank borrowings approximate their fair values due to short maturity date.

As at 31 December 2016, the Group's bank borrowings were secured by certain property, plant, and equipment and assets classified as held for sale.

27 BORROWINGS (Continued)

As at 31 December 2017, the effective interest rate of the Group's borrowings is 8.12% (2016: 7.66%).

The carrying values of the borrowings are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
HKD	129,762	138,071
RMB	18,000	38,000
	147,762	176,071

28 DEFERRED INCOME TAX

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

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

	2017 RMB'000	2016 RMB'000
At 1 January	(5,377)	(11,386)
(Charged)/credited to the profit or loss (Note 12)	(756)	6,009
At 31 December	(6,133)	(5,377)

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

Deferred income tax assets

	Accelerated accounting depreciation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	1,347	598	1,945
Credited to the profit or loss	353	158	511
At 31 December 2016	1,700	756	2,456
Charged to the profit or loss	–	(756)	(756)
At 31 December 2017	1,700	–	1,700

28 DEFERRED INCOME TAX (Continued)

Deferred income tax assets (Continued)

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. As at 31 December 2017, the Group did not recognize deferred income tax assets of RMB26,785,000 and RMB33,031,000 (2016: RMB13,510,000 and RMB9,844,000) in respect of temporary difference and losses amounting to RMB147,535,000 (2016: RMB43,473,000), respectively, that can be carried forward against future taxable income as at 31 December 2017. In respect of the losses, RMB3,245,000, RMB8,135,000, RMB32,093,000 and RMB104,062,000 are expiring in year 2019, 2020, 2021 and 2022 respectively.

Deferred income tax liabilities

	Undistributed earnings RMB'000	Fair value gain on investment property RMB'000	Total RMB'000
At 1 January 2016	(10,333)	(2,998)	(13,331)
Credited to the profit or loss	2,500	2,998	5,498
At 31 December 2016	(7,833)	–	(7,833)
Credited to the profit or loss	–	–	–
At 31 December 2017	(7,833)	–	(7,833)

As at 31 December 2017, management is of the view that undistributed earnings totaling RMB954,008,000 (2016: RMB993,750,000) are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of RMB47,700,000 (2016: RMB49,688,000) have not been recognized for the withholding tax that would be payable upon distribution of profits of the subsidiaries in the PRC.

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

	2017 RMB'000	2016 RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	1,700	1,700
– to be recovered within 12 months	–	756
	1,700	2,456
Deferred income tax liabilities		
– to be settled after more than 12 months	(7,833)	(7,833)
Deferred income tax liabilities – net	(6,133)	(5,377)

29 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2017:

Name	Place and date of incorporation/ establishment	Principal activities	Legal status	Issued/paid up capital	Effective interest held as at 2017	2016
Directly held by the Company:						
China Prosper Int'l Ltd. 華茂國際有限公司	British Virgin Islands (the "BVI"), 30 December 2009	Investment holding	Limited liability company	USD50,000	100%	100%
Shine Ever Developments Limited 盛永發展有限公司	BVI, 10 January 2017	Investment holding	Limited liability company	USD100	100%	–
Indirectly held by the Company:						
Allen International Holdings Limited 亞倫國際控股有限公司	Hong Kong, 1 February 2010	Investment holding	Limited liability company	HKD10,000	100%	100%
Allen China Co., Ltd. 亞倫（中國）有限公司	The PRC, 2 September 1993	Manufacturing and sale of home decor products and properties rental	Foreign investment enterprise with limited liability	RMB159,099,845	100%	100%

29 SUBSIDIARIES (Continued)

Name	Place and date of incorporation/ establishment	Principal activities	Legal status	Issued/paid up capital	Effective interest held as at 2017	2016
Indirectly held by the Company:						
Allen Electronics Co., Ltd. Fujian 福建亞倫電子電器科技有限公司	The PRC, 19 February 1997	Manufacturing and sale of electric fireplace	Foreign investment enterprise with limited liability	HKD835,000,000	100%	100%
Quanzhou Allen Light Industry Co., Ltd. 泉州亞倫輕工有限公司	The PRC, 27 September 2001	Manufacturing and sale of home decor products	Foreign investment enterprise with limited liability	USD10,000,000	100%	100%
Allen Electronics Co., Ltd. Anhui 安徽亞倫電子科技有限公司	The PRC, 16 January 2014	Manufacturing and sale of electric fireplace	Foreign investment enterprise with limited liability	RMB100,000,000	100%	100%
Asia Solar Star Limited 亞洲日星有限公司	Hong Kong, 1 February 2017	Investment holding	Limited liability company	HKD100	100%	–
China Creative Express (Shenzhen) Supply Chain Management Co., Limited 中創運通（深圳）供應鏈管理有限公司	The PRC, 11 April 2017	Supply Chain Management	Foreign investment enterprise with limited liability	Nil	100%	–
Aoshiweilang Environmental Technology (Shanghai) Limited 奧士威朗環保科技（上海）有限公司	The PRC, 22 May 2014	Trading of air purifiers	Limited liability company	RMB7,930,000	100%	–

30 CASH (USED IN)/GENERATED FROM OPERATIONS

	2017 RMB'000	2016 RMB'000
Loss before income tax	**(168,794)**	(93,374)
Adjustments for:		
– Amortization of land use rights	**4,256**	4,311
– Loss on disposal of property, plant and equipment	**1,825**	–
– Loss on disposal of a land use right	**663**	–
– Other PRC taxes in relation to the disposal of assets	**1,894**	–
– Gain on disposal of assets classified as held for sale	**(5,458)**	–
– Depreciation of property, plant and equipment	**25,872**	25,129
– Interest income	**(3,789)**	(3,972)
– Finance costs	**3,584**	16,254
– Foreign exchange loss on operating activities	**1,924**	775
– Impairment provision of property, plant and equipment	**53,100**	54,039
– Bad debts written-off	**–**	165
– Provision for doubtful debts	**2,752**	2,378
– Inventories written-off	**634**	6,644
– Fair value loss on investment property	**40,400**	12,000
– Impairment provision of investment in an associate	**10,335**	–
– Share of loss of an associate	**13,285**	533
Changes in working capital:		
– (Increase)/decrease in inventories	**(1,815)**	13,355
– (Increase)/decrease in trade receivables	**(25,346)**	329,540
– Decrease in deposits, prepayments and other receivables	**7,145**	17,988
– Decrease in pledged deposits	**–**	1,840
– Increase/(decrease) in trade and other payables	**4,329**	(138,319)
Cash (used in)/generated from operations	**(33,204)**	249,286

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2017 RMB'000	2016 RMB'000
Net book value of property, plant and equipment disposed of (Note 15)	**2,218**	–
Loss on disposal of property, plant and equipment (Note 10)	**(1,825)**	–
Proceeds from disposal of property, plant and equipment	**393**	–

30 CASH (USED IN)/GENERATED FROM OPERATIONS (Continued)

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the period presented.

	2017 RMB'000
Cash and cash equivalents	777,201
Borrowings – repayable within one year	(18,000)
Borrowings – repayable after one year	(129,762)
Net debt	629,439
Cash and cash equivalents	777,201
Gross debt – fixed interest rates	(147,762)
Net debt	629,439

	Cash and cash equivalents RMB'000	Borrowings – repayable within one year RMB'000	Borrowings – repayable after one year RMB'000	Total RMB'000
At 1 January 2017	817,213	(38,000)	(138,071)	641,142
Foreign exchange adjustments	329	–	9,775	10,104
Other non-cash movements	–	–	(1,466)	(1,466)
Cash flows	(40,341)	20,000	–	(20,341)
At 31 December 2017	777,201	(18,000)	(129,762)	629,439

31 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2017 RMB'000	2016 RMB'000
Contracted but not provided for		
– Land use rights	45,390	17,210
– Property, plant and equipment	17,210	31,790
	62,600	49,000

31 COMMITMENTS (Continued)

(b) Operating leases commitments

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

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

	2017 RMB'000	2016 RMB'000
No later than one year	161	858
Later than one year and no later than five years	–	156
	161	1,014

(c) Operating leases (as lessor)

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

	2017 RMB'000	2016 RMB'000
No later than one year	6,600	22,002
Later than one year and no later than five years	27,489	37,534
Later than five years	72,575	107,421
	106,664	166,957

32 BUSINESS COMBINATION AND GOODWILL

During the year ended 31 December 2017, the Group acquired 100% of the issued share capital of Aoshiweilang Environmental Technology (Shanghai) Limited, a company incorporated in the PRC and principally engaged in trading of air purifiers.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	RMB'000
Consideration:	
Fair value of ordinary shares issued (Note 24)	9,319

On 30 November 2017, the Company issued 50,000,000 ordinary shares at HKD0.219 amounting to HKD10,950,000 (equivalent to RMB9,319,000) as a consideration for the acquisition.

32 BUSINESS COMBINATION AND GOODWILL (Continued)

The assets and liabilities recognized as a result of the acquisition are as follows:

	Fair value
	RMB'000
Cash and cash equivalents	8
Trade and other receivables	176
Inventories	976
Other payables	(1,350)
Net identifiable liabilities acquired	(190)
Add: Goodwill	9,509
Net assets acquired	9,319

Impairment test for goodwill

Goodwill is allocated to the above CGU identified. The recoverable amount of a CGU is determined based on value-in-use calculation. This calculation uses pre-tax cash flow projections based on financial budgets performed by management covering a five-year period. Management determined the financial budgets based on past performance and its expectations for the market development. Cash flows beyond the five year period are extrapolated using the estimated growth rate stated below.

The key assumptions used for value-in-use calculation are as follows:

1. No growth has been assumed to extrapolate cash flows beyond the budget period.

2. Pre-tax discount rate applied to cash flow projections of 10%. The discount rate used reflects specific risks related to the Group.

Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount significantly.

33 RELATED-PARTY TRANSACTIONS

As at 31 December 2017, the Group is controlled by China Wisdom Asia Limited (incorporated in the BVI), which owns 52% of the Company's shares. The remaining 48% of the shares are widely held. The ultimate parent of the Group is Central Profit Group Limited (incorporated in the BVI). The ultimate controlling party of the Group is Mr. Chen Fanglin.

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

Person/Company	**Relationship with the Group**
Ms. Chen Xiangqun	Spouse of Mr. Chen Fanglin
Quanzhou Xinliya Trading Co., Ltd. (泉州欣利亞商貿有限公司)	Beneficially owned by Mr. Chen Fanglin
Quanzhou Meiya Property Management Co., Ltd. (泉州美亚商业管理有限公司)	Significantly influenced by Mr. Chen Fanglin

(a) Transactions with related parties

	2017 RMB'000	2016 RMB'000
Rental expense (note (i))	**–**	792
Sales of a land use right (note (ii))	**17,353**	–

Note:

(i) It represents rental expense of a home furnishing concept shop paid or payable to Quanzhou Xinliya Trading Co., Ltd and was determined at prevailing market rate of similar shops nearby.

(ii) It represents sale of a land use right to Quanzhou Meiya Property Management Co., Ltd and the transaction was made at mutually agreed prices and terms.

33 RELATED-PARTY TRANSACTIONS (Continued)

(b) Key management compensation

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

	2017 RMB'000	2016 RMB'000
Directors' fees	**1,264**	308
Basic salaries, housing allowances, other allowances and benefits in kind	**3,584**	4,734
Social security and pension costs	**1,005**	1,055
	5,853	6,097

(c) Guarantee by Mr. Chen Fanglin

As at 31 December 2016, certain bank borrowings are secured by Mr. Chen Fanglin.

(d) Guarantee by Quanzhou Meiya Property Management Co., Ltd. and Ms. Chen Xiangqun

As at 31 December 2016, certain bank borrowings are secured by Ms. Chen Xiangqun.

(e) Balance with immediate holding company

As at 31 December 2016, the amount due to the immediate holding company is unsecured, non-interest bearing and repayable on demand. The amount is denominated in HKD and approximate the fair value.

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	2017 RMB'000	2016 RMB'000
ASSETS		
Non-current asset		
Investment in subsidiaries	1,286,725	1,286,724
Current assets		
Amounts due from subsidiaries	278,259	282,592
Cash and cash equivalents	5	102
	278,264	282,694
Total assets	1,564,989	1,569,418
EQUITY		
Share capital	164	160
Share premium	702,809	693,494
Reserves (note)	726,183	732,318
Total equity	1,429,156	1,425,972
LIABILITIES		
Non-current liabilities		
Borrowings	129,762	138,071
Current liabilities		
Other payables	6,071	5,375
Total liabilities	135,833	143,446
Total equity and liabilities	1,564,989	1,569,418

The balance sheet of the Company was approved by the Board of Directors on 28 March 2018 and was signed on its behalf.

Chen Fanglin **Shen Jianzhong**

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Note:

Reserve movement of the Company

	Capital reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2016	715,521	65,456	780,977
Total comprehensive loss			
Loss for the year	–	(23,236)	(23,236)
Transactions with owners:			
Dividends	–	(25,423)	(25,423)
As at 31 December 2016	715,521	16,797	732,318
As at 1 January 2017	715,521	16,797	732,318
Total comprehensive loss			
Loss for the year	–	(6,135)	(6,135)
As at 31 December 2017	715,521	10,662	726,183

35 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The details of directors' emoluments are set out below:

For the year ended 31 December 2017:

	As Director (note (i))				As Management (note (ii))	
Name of Director	**Fees RMB'000**	**Salary RMB'000**	**Discretionary bonuses RMB'000**	**Employer's contribution to pension scheme RMB'000**	**Employee benefits RMB'000**	**Total RMB'000**
Executive directors						
Mr. Chen Fanglin	–	631	–	408	630	1,669
Mr. Chen Hongming (note v)	–	149	–	47	588	784
Mr. Shen Jianzhong	–	159	–	52	633	844
Mr. Chen Jiang (note vi)	476	–	–	–	–	476
Mr. Xu Qiang (note vi)	476	–	–	–	–	476
Mr. Zheng Hebin (note vii)	–	43	–	–	229	272
Non-executive directors						
Mr. Dai Jianping	104	–	–	–	–	104
Mr. Ng Wing Keung	104	–	–	–	–	104
Ms. Sun Kam Ching	104	–	–	–	–	104
	1,264	982	–	507	2,080	4,833

35 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) **Directors' emoluments** (Continued)

For the year ended 31 December 2016:

	As Director (note (i))				As Management (note (ii))	
Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Employee benefits RMB'000	Total RMB'000
Executive directors						
Mr. Chen Fanglin	–	630	–	415	630	1,675
Mr. Chen Hongming	–	159	50	53	786	1,048
Mr. Shen Jianzhong	–	159	50	52	785	1,046
Mr. Chen Jiang (note vi)	–	–	–	–	–	–
Mr. Xu Qiang (note vi)	–	–	–	–	–	–
Non-executive directors						
Mr. Dai Jianping	103	–	–	–	–	103
Mr. Ng Wing Keung	103	–	–	–	–	103
Ms. Sun Kam Ching	103	–	–	–	–	103
	309	948	100	520	2,201	4,078

Notes:

(i) The amounts represented emoluments paid or payable in respect of a person's services as a director, whether of the Company or its subsidiaries undertakings.

(ii) The amounts represented emoluments paid or payable in respect of a person's other services in connection with the management of the affairs of the Company or its subsidiaries undertakings and included salaries, discretionary bonuses and pension costs.

(iii) No director has waived or agreed to waive any emoluments during the year (2016: Nil).

(iv) During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil).

(v) The director has resigned on 8 December 2017.

(vi) The directors have been appointed on 16 February 2017.

(vii) The director has been appointed on 8 December 2017.

35 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2016: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2017, the Company did not pay consideration to any third parties for making available directors' services (2016: Nil).

36 SUBSEQUENT EVENTS

(a) On 11 January 2018, the Group entered into an agency agreement with an independent third party for the appointment as non-exclusive agent for the distribution and management of air purifiers. Pursuant to the agreement, the consideration of HKD18,000,000 shall be settled by allotting and issuing 90,000,000 shares of the Company to the independent third party at a price of HKD0.2. The transaction has been completed on 2 February 2018.

(b) On 6 March 2018, the Group completed the disposal of the investment in an associate as disclosed in Note 23 to an independent third party at a cash consideration of HKD225,000,000 (equivalent to RMB187,200,000).

FIVE-YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**147,806**	349,744	1,281,926	1,409,006	1,195,522
Cost of sales	**(119,574)**	(257,246)	(808,514)	(840,026)	(666,072)
Gross profit	**28,232**	92,498	473,412	568,980	529,450
Selling and distribution costs	**(13,778)**	(27,466)	(52,099)	(64,111)	(59,851)
Administrative expenses	**(74,032)**	(79,467)	(84,892)	(78,651)	(83,002)
Impairment provision of property, plant and equipment	**(53,100)**	(54,039)	–	–	–
Impairment provision of investment in an associate	**(10,335)**	–	–	–	–
Fair value (loss)/gain on an investment property	**(40,400)**	(12,000)	300	9,500	–
Other income	**12,336**	4,662	10,747	13,777	6,482
Other (losses)/gains-net	**(848)**	(775)	23,368	(2,880)	–
Operating (loss)/profit	**(151,925)**	(76,587)	370,836	446,615	393,079
Finance costs	**(3,584)**	(16,254)	(3,612)	(2,420)	(4,481)
Share of loss of an associate	**(13,285)**	(533)	–	–	–
(Loss)/profit before income tax	**(168,794)**	(93,374)	367,224	444,195	388,598
Income tax expense	**(5,758)**	(2,144)	(68,231)	(89,282)	(85,369)
(Loss)/profit for the year attributable to equity holders of the Company	**(174,552)**	(95,518)	298,993	354,913	303,229
(Loss)/earnings per share – Basic and diluted (RMB)	**(0.09)**	(0.05)	0.16	0.20	0.21

ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**2,287,987**	2,474,997	2,600,661	2,382,667	1,921,627
TOTAL LIABILITIES	**199,755**	221,532	254,133	461,194	301,920
TOTAL EQUITY	**2,088,232**	2,253,465	2,346,528	1,921,473	1,619,707