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 2018

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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
Mr. Lo Kei Wai Paul

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

Zhonghui Anda CPA Limited
Certified Public Accountants
Unit 701, 7/F., Citicorp Centre
18 Whitfield Road
Causeway Bay, 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

Unit A, 19th Floor.
Henan Electric Development Building
389 King's Road
North Point
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

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 93 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 2018, 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 2018 ("year under review").

Overviewing 2018, 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 6.6%. According to the National Bureau of Statistics of China, both per capita disposable income and consumer expenditure increased, by 6.5% and 6.2% 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 52.2% of the national GDP in 2018, 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 2018, the Group's revenue amounted to RMB152.5 million, representing a increase of 3.2% compared to that of last year. Loss attributable to equity holders of the Company decreased by 16.4% to RMB145.9 million (2017: RMB174.6 million). Though the better demand for electric fireplaces and home decor products, decreases in impairment losses on property, plant and equipment, impairment in an associate, and share of loss of an associate, the Group experienced a decrease in gross profit, increases in other losses and finance cost, and increases in impairment losses on prepayments, and impairment of goodwill and intangible assets.

The major streams of revenue are electric fireplaces, and home decor products. Electric fireplaces contributed to RMB105.8 million for the year under review, 69.4% of the total revenue. Home decor products contributed to RMB46.7 million of revenue to the Group, as 30.6% of its total. For the year under review, revenue from overseas markets amounted to RMB85.5 million, roughly 56.0% of the Group's total revenue; revenue from domestic PRC market was recorded at approximately RMB67.0 million, approximately 44.0% of the total

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

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.

PROSPECTS FOR 2019

In 2019, 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.

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, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2018, 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 several 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 2018 was RMB28,228, representing an increase of 6.5% as compared with that of last year. Per capita consumption expenditure also increased 6.2% to RMB19,853, 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 2018 increased by 3.2% to RMB152.5 million from RMB147.8 million for the year ended 31 December 2017. The loss attributable to the equity holders of the Company was RMB145.9 million for the year ended 31 December 2018, representing an decrease of 16.4% as compared to the loss of RMB174.6 million for the year ended 31 December 2017. This was mainly due to (1) decreases in impairment losses on property, plant and equipment, impairment provision of investment in an associate, and share of loss of an associate; and set off by (2) a decrease in gross profit; (3) increases in other losses and finance cost; and (4) increases in impairment losses on prepayments, and impairment of goodwill and intangible assets.

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 2018 were 69.4% and 30.6% respectively, while the proportions were 69.8% and 30.2% respectively last year.

During the year ended 31 December 2018, overseas market and PRC market contributed RMB85.5 million (2017: RMB80.8 million) and RMB67.0 million (2017: RMB67.0 million) respectively, or 56.0% (2017: 54.7%) and 44.0% (2017: 45.3%) respectively to the Group's total revenue.

The Group considers innovation as the core element of its development. The design team consists of 93 staff as at 31 December 2018.

PROSPECT

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.

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 increased by RMB4.7 million from RMB147.8 million to RMB152.5 million, represented a increase of 3.2% compared with last year. The increase was mainly driven by the higher market demand.

Revenue analysis by product type is as follows:

	2018		2017	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Electric fireplaces				
Framed electric fireplaces	**13,077**	**8.6**	16,212	11.0
Non-framed electric fireplaces	**15,086**	**9.9**	16,391	11.1
Heater and others	**77,619**	**50.9**	70,526	47.7
	105,782	**69.4**	103,129	69.8
Home decor products				
— Polyresin series	**46,719**	**30.6**	43,823	29.6
— Porcelain series	**—**	**—**	854	0.6
	46,719	**30.6**	44,677	30.2
	152,501	**100**	147,806	100

FINANCIAL ANALYSIS (Continued)

Revenue (Continued)

The increase in the sales of electric fireplaces and home decor products was primarily due to the increase in sales volume due to the higher market demand in the PRC.

Gross Profit and Gross Profit Margin

Our gross profit decreased from RMB28.2 million for the year ended 31 December 2017 to RMB17.7 million for the year ended 31 December 2018, represented a decrease of 37.2% compared with last year mainly due to the decrease in gross profit margin.

The gross profit margin decreased from 19.1% for the year ended 31 December 2017 to 11.6% for the year ended 31 December 2018. The decrease was primarily due to the decrease in average selling prices.

Other Income

Other income decreased by RMB0.1 million or approximately 0.8%, from RMB12.3 million for the year ended 31 December 2017 to RMB12.2 million for the year ended 31 December 2018 primarily due to the decrease in rental income and set off by increase in bank interest income.

Other Losses — Net

The Group's other losses mainly consists of the net foreign exchange loss of RMB2.8 million, and loss on disposal/written-off of property, plant and equipment of RMB19.6 million for the year ended 31 December 2018. 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 for the year ended 31 December 2017.

Selling And Distribution Expenses

Our selling and distribution expenses increased by RMB3.4 million, or approximately 24.6%, from RMB13.8 million for the year ended 31 December 2017 to RMB17.2 million for the year ended 31 December 2018 primarily due to increase in advertising and promotion expenses.

Administrative And Other Operating Expenses

Our administrative and other operating expenses decreased by RMB3.9 million, or approximately 5.5%, from RMB71.3 million for the year ended 31 December 2017 to RMB67.4 million for the year ended 31 December 2018. The decrease was mainly due to the decrease in staff costs and depreciation of property, plant and equipment.

Impairment losses of property, plant and equipment

As at 31 December 2018, the Group had property, plant and equipment before impairment provision of approximately RMB401.5 million and RMB211.4 million located in Anhui and Quanzhou, the PRC respectively. For the year ended 31 December 2018, 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 RMB10.8 million (2017: RMB53.1 million) has been made during the year.

FINANCIAL ANALYSIS (Continued)

Finance Costs

The Group's finance costs increased by RMB16.6 million, or approximately 461.1%, from RMB3.6 million for the year ended 31 December 2017 to RMB20.2 million for the year ended 31 December 2018. The increase was mainly due to the foreign exchange loss of RMB7.3 million (2017: foreign exchange gain of RMB9.8 million) arising from borrowings denominated in HKD.

Share of Loss of an Associate

The Group disposed of 49% of the entire issued share capital in Radiant Forever Development Limited in March 2018. 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 decreased by RMB5.0 million, or approximately 86.2%, from RMB5.8 million for the year ended 31 December 2017 to RMB0.8 million for the year ended 31 December 2018, primarily as a result of the decrease in land appreciation tax and income tax provision.

Loss for The Year Attributable To Owners Of the Company

Loss attributable to owners of the Company decreased by RMB28.7 million from RMB174.6 million for the year ended 31 December 2017 to RMB145.9 million for the year ended 31 December 2018. Basic loss per share decreased from RMB9 cents for the year ended 31 December 2017 to RMB7 cents for the year ended 31 December 2018.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in RMB, HKD and USD. As at 31 December 2018, the Group had net current assets of RMB1,193.3 million (2017: RMB1,084.0 million), of which cash and cash equivalents were RMB889.8 million (2017: RMB777.2 million).

The Group principally meets its working capital and other liquidity requirements through a combination of operating cash flows, capital contributions and bank borrowings. As at 31 December 2018, the Group's borrowings amounted to RMB168.6 million (2017: RMB147.8 million) and these borrowings were denominated in HKD and RMB. As at 31 December 2018, the weighted average interest rate on the Group's bank borrowings was 8.19% (2017: 8.12%).

	2018	2017
Current ratio[1]	**6.1**	17.9
Gearing ratio (%)[2]	**8.6%**	7.1%

(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 bank borrowings) divided by our total equity.

FOREIGN EXCHANGE RISK

Our functional currency is RMB. Our Group's foreign exchange risk mainly relate to fluctuations in exchange rates of RMB against our bank balances in USD and HKD and trade receivables denominated in USD, and these may affect our operation results. Our 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 2018, the Group had pledged its certain land use rights, with net book value of RMB71.3 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 RMB1,084.0 million as at 31 December 2017 to RMB1,193.3 million as at 31 December 2018, representing an increase of RMB109.3 million or 10.1%. The increase in working capital is mainly a result of the increase in deposits, prepayments and other receivables, and cash and cash equivalents, the decrease in trade and other payables, and partly set off by decrease in inventory and trade receivables, and the increase in short-term borrowings.

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 HK$597.2 million (after deducting the underwriting commission and relevant expenses). As at 31 December 2018, 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 2018 HKD' million	Unutilised Amount as at 31 December 2018 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**	**12.7**	**30.9**
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	**507.5**	**89.7**

EMPLOYEES AND EMOLUMENTS

As at 31 December 2018, we employed a total of 819 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 2018, the Group's total expenses on the remuneration of employees was RMB56.1 million, representing 36.8% of the revenue of the Group.

Our emolument policies are formulated based on the performance of individual employee which will be reviewed periodically. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance fund (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. Since the adoption of the share option scheme on 2 December 2013 and up to 31 December 2018, no options have been granted.

CAPITAL EXPENDITURE

For the year ended 31 December 2018, the capital expenditure of the Group amounted to RMB0.3 million. It was mainly comprised of property, plant and equipment, in the PRC.

MATERIAL ACQUISITION AND DISPOSALS AND SIGNIFICANT INVESTMENTS

In January 2018, the Group had entered into an agreement to dispose of 49% of the entire issued capital in Radiant Forever Development Limited, to an independent third party, at the consideration of HKD225.0 million. The transaction was completed in March 2018.

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 2018.

CONTINGENT LIABILITIES

As at 31 December 2018, 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
Mr. Xu Qiang
Mr. Zheng Hebin
Mr. Lo Kei Wai Paul *(Appointed on 28 November 2018)*

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	4/4	1/1
Mr. Lo Kei Wai Paul	1/1	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.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

APPOINTMENTS, RE-ELECTION AND ROTATION OF DIRECTORS

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

According to the Articles and in the opinion of the Board, the Directors, namely Mr. Chen Jiang, Mr. Xu Qiang, Mr. Lo Kei Wai Paul and Ms. Sun Kam Ching 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 2018 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, Zhonghui Anda CPA Limited 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 36 to 39.

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

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 2018.

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 29 March 2019, 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 2018 amounted to approximately RMB1.7 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 35 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:	Unit A, 19/F., Henan Electric Development Building, 389 King's Road, North Point, 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 2018.

PRINCIPAL ACTIVITIES

The principal activity of Company is investment holding and the principal activities of its subsidiaries are set out in Note 36 to the financial statements.

RESULTS AND APPROPRIATIONS

Results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of comprehensive income on page 40.

The Board does not recommend a final dividend for the year ended 31 December 2018.

FINANCIAL SUMMARY

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

SHARE CAPITAL

On 2 February 2018, the Company allotted and issued 90,000,000 new shares in satisfaction of the aggregate consideration of HKD18,000,000 to O2U Limited for the appointment of the Company by O2U Limited 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 from 11 January 2018 to 20 December 2022. The closing price of the Company's share on 2 February 2018 was HKD0.199 per share.

Details of the movements in share capital of the Company in the year ended 31 December 2018 are set out in Note 30 to the financial statements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders consist of share premium and retained earnings. As of 31 December 2018, the Company had an aggregate share premium and retained earnings of RMB702,560,000 which are available for distribution to the shareholders. For the year ended 31 December 2018, 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 28 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 2018, the Group's five largest customers accounted for approximately 95.8% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 36.9% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 36.0% of the Group's total purchases, while the largest supplier for the year accounted for approximately 8.4% 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 2018, the Group had 819 employees in total. The table below shows a breakdown of the Group's employees by their responsibilities:

Department	**Number of employees**
Management	16
Production	580
Quality assurance	15
General and administration	74
Purchase and logistics	20
Design and technical	93
Sales and marketing	21
Total	819

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 13, 14 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.

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	10
RMB1,000,001 to RMB1,500,000	–
RMB1,500,001 to RMB2,000,000	1
	11

REMUNERATION POLICY AND EMPLOYEES (Continued)

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
Mr. Xu Qiang
Mr. Zheng Hebin
Mr. Lo Kei Wai Paul *(Appointed on 28 November 2018)*

Independent non-executive Directors:

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

In accordance with the Articles, Mr. Chen Jiang, Mr. Xu Qiang, Mr. Lo Kei Wai Paul and Ms. Sun Kam Ching 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, the executive Director, Mr. Zheng Hebin, and the executive Director, Mr. Lo Kei Wai Paul, has entered into a service contract with the Company for a term of three years commencing from 20 December 2016, 16 February 2017, 8 December 2017, and 28 November, 2018 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 32 to 35.

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 2018, 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)	1,135,669,180	52.33
	Beneficial owner/Long position	166,000	0.01
	Interest of spouse/Long position (Note 2)	1,186,000	0.09
		1,137,021,180	52.43

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Save as disclosed above, none of the Directors of the Company had interests or short positions in the Shares, underlying Shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2018.

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 2018, 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)	1,135,669,180	52.33
Central Profit Group Limited	Interest in controlled corporation/Long position (Note 1)	1,135,669,180	52.33
Chen Xiangqun	Interest of spouse/Long position (Note 2)	1,135,835,180	52.34
	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.

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

Save as disclosed above, the Directors are not aware of any person, other than the Directors whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, who had an interest or short positions in the shares or underlying shares that were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded pursuant to Section 336 of Part XV of the SFO as of 31 December 2018.

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.

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

The Company has not redeemed any of the shares during the year ended 31 December 2018. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2018.

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 2018.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 35 to the financial statements, and none of which constitutes a discloseable connected transaction as defined under the Listing Rules.

DEED OF NON-COMPETITION

The Company entered into a deed of non-competition (the "Deed of Non-Competition") with Mr. Chen Fanglin, China Wisdom Asia Limited, Central Profit Group Limited, and Chen Xiangqun (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 2018.

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 2018.

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 2018.

AUDITOR

The financial statements have been audited by Zhonghui Anda CPA Limited 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 2019 (the "Annual General Meeting"), the register of members of the Company will be closed from 24 May 2019 to 29 May 2019 (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 2019.

On behalf of the Board
Chen Fanglin
Chairman

Hong Kong, 29 March 2019

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Fanglin (陳芳林), aged 55, 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 59, 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 50, 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 35, 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 47, 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.

Mr. Lo Kei Wai Paul (盧其偉), aged 68, is an executive Director of our Company. He is principally responsible for international trade business of our Group. He has over 30 years of international trade experience in Australia and New Zealand.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Dai Jianping (戴建平), aged 62, 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 49, 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 46, 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 47, 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. Hui has been appointed as an independent non-executive director of Gansu Qingheyuan Halal Food Co., Ltd. (甘肅清河源清真食品股份有限公司) since September 2018 and as an independent director of Shanghai Kindly Medical Instruments Co., Ltd. (上海康德萊醫療器械股份有限公司) since December 2018.

Mr. Yang Dilin (楊的林), aged 54, 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

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF
CHINA CREATIVE GLOBAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Creative Global Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 95, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2018, 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 (the "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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

Property, plant and equipment and land use rights

Refer to Note 17 and 19 to the consolidated financial statements

The Group tested the amount of property, plant and equipment and land use rights for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of RMB495,010,000 and land use rights of RMB178,971,000 as at 31 December 2018 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

KEY AUDIT MATTERS (Continued)

Property, plant and equipment and land use rights (Continued)

Our audit procedures for those using value-in-use calculations included, among others:

— Assessing the identification of the related cash generating units;

— Assessing the arithmetical accuracy of the value-in-use calculations;

— Comparing the actual cash flows with the cash flow projections;

— Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates); and

— Checking impairment data to supporting evidence.

Our audit procedures for those using fair value less costs of disposal included, among others:

— Assessing the competence, independence and integrity of the external valuer engaged by the management;

— Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgements and assumptions applied in the valuation model;

— Checking key assumption and input data in valuation model to supporting evidence;

— Checking arithmetical accuracy of the valuation model; and

— Assessing the disclosure of the fair value measurement in the consolidated financial statements.

We consider that the Group's impairment test for property, plant and equipment and land use rights is supported by the available evidence.

Deposits, prepayments and other receivables

Refer to Note 23 to the consolidated financial statements

The Group tested the amount of deposits, prepayments and other receivables for impairment. This impairment test is significant to our audit because the balance of deposits, prepayments and other receivables of RMB464,468,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

— Assessing the Group's procedures on granting credit limits and credit periods to debtors;

— Assessing the Group's relationship and transaction history with the debtors;

— Evaluating the Group's impairment assessment;

KEY AUDIT MATTERS (Continued)

Deposits, prepayments and other receivables (Continued)

— Assessing ageing of the debts;

— Assessing creditworthiness of the debtors;

— Checking subsequent settlements from the debtors; and

— Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's impairment test for deposits, prepayments and other receivables is supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

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 identified above when it becomes available 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.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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.

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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Pang Hon Chung
Audit Engagement Director
Practising Certificate Number P05988

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	7	**152,501**	147,806
Cost of sales		**(134,782)**	(119,574)
Gross profit		**17,719**	28,232
Other income	9	**12,227**	12,336
Other losses — net	10	**(22,342)**	(848)
Selling and distribution expenses		**(17,160)**	(13,778)
Administrative and other operating expenses		**(67,362)**	(71,280)
Impairment losses on property, plant and equipment	17	**(10,831)**	(53,100)
Impairment losses on investment in an associate	26	**—**	(10,335)
Impairment losses on prepayments	23	**(22,360)**	—
Impairment losses on goodwill and intangible asset	20	**(15,650)**	—
Fair value gain/(loss) on investment property	18	**300**	(40,400)
Reversal of loss allowance/(loss allowance) for trade receivables	22	**582**	(2,752)
Loss from operations		**(124,877)**	(151,925)
Finance costs	11	**(20,224)**	(3,584)
Share of loss of an associate		**—**	(13,285)
Loss before tax		**(145,101)**	(168,794)
Income tax expense	12	**(792)**	(5,758)
Loss and total comprehensive loss for the year	13	**(145,893)**	(174,552)
Loss per share	16		
Basic (RMB)		**(0.07)**	(0.09)
Diluted (RMB)		**(0.07)**	(0.09)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	17	**495,010**	548,049
Investment property	18	**70,300**	70,000
Land use rights	19	**174,990**	178,971
Goodwill and intangible asset	20	**6,154**	9,509
Deposits, prepayments and other receivables	23	**32,104**	333,612
		778,558	1,140,141
Current assets			
Land use rights	19	**3,981**	3,981
Inventories	21	**7,367**	14,141
Trade receivables	22	**55,894**	92,176
Deposits, prepayments and other receivables	23	**432,364**	73,147
Bank and cash balances	24	**889,760**	777,201
		1,389,366	960,646
Assets classified as held for sale	25	**—**	187,200
		1,389,366	1,147,846
Current liabilities			
Trade and other payables	27	**30,528**	45,244
Borrowings	28	**159,724**	18,000
Current tax liabilities		**5,794**	616
		196,046	63,860
Net current assets		**1,193,320**	1,083,986
Total assets less current liabilities		**1,971,878**	2,224,127

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Borrowings	28	**8,890**	129,762
Deferred tax liabilities	29	**6,133**	6,133
		15,023	135,895
NET ASSETS		**1,956,855**	2,088,232
Capital and reserves			
Share capital	30	**171**	164
Reserves		**1,956,684**	2,088,068
TOTAL EQUITY		**1,956,855**	2,088,232

The consolidated financial statements on pages 40 to 95 were approved and authorised for issue by the board of directors on 29 March 2019 and are signed on its behalf by:

Chen Fanglin
DIRECTOR

Shen Jianzhong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital RMB'000 (Note 30)	Share premium RMB'000 (Note 30)	Capital reserve RMB'000 (Note 31)	Statutory reserves RMB'000 (Note 31)	Retained earnings RMB'000	Revaluation reserve RMB'000	Total RMB'000
At 1 January 2017	160	693,494	406,736	144,178	1,007,255	1,642	2,253,465
Loss and total comprehensive loss for the year	—	—	—	—	(174,552)	—	(174,552)
Issue of new shares (Note 30)	4	9,315	—	—	—	—	9,319
At 31 December 2017	164	702,809	406,736	144,178	832,703	1,642	2,088,232
At 1 January 2018	164	702,809	406,736	144,178	832,703	1,642	2,088,232
Loss and total comprehensive loss for the year	—	—	—	—	(145,893)	—	(145,893)
Issue of new shares (Note 30)	7	14,509	—	—	—	—	14,516
At 31 December 2018	171	717,318	406,736	144,178	686,810	1,642	1,956,855

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Cash flows from operating activities		
Loss before tax	**(145,101)**	(168,794)
Adjustments for:		
Amortisation of land use rights	**3,981**	4,256
Amortisation of intangible assets	**2,831**	—
Loss on disposal/written-off of property, plant and equipment	**19,616**	1,825
Loss on disposal of 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	**22,860**	25,872
Interest income	**(4,346)**	(3,789)
Finance costs	**20,224**	3,584
Foreign exchange loss	**2,770**	1,924
Impairment losses on property, plant and equipment	**10,831**	53,100
Impairment losses on prepayments	**22,360**	—
Impairment losses on goodwill and intangible asset	**15,650**	—
(Reversal of loss allowance)/loss allowance for trade receivables	**(582)**	2,752
Inventories written-off	**7,074**	634
Fair value (gain)/loss on investment property	**(300)**	40,400
Impairment losses on investment in an associate	**—**	10,335
Share of loss of an associate	**—**	13,285
Operating cash flows before working capital changes	**(22,132)**	(17,517)
Change in inventories	**(300)**	(1,815)
Change in trade receivables	**36,419**	(25,346)
Change in deposits, prepayments and other receivables	**(72,717)**	7,145
Change in trade and other payables	**(13,297)**	6,615
Interest paid	**(11,306)**	(12,001)
Income tax refund/(paid)	**4,578**	(2,263)
Net cash used in operating activities	**(78,755)**	(45,182)

CONSOLIDATED STATEMENT OF CASH FLOWS

	2018 RMB'000	2017 RMB'000
Cash flows from investing activities		
Purchases of property, plant and equipment	**(268)**	(1,383)
Prepayments for construction cost	**(7,352)**	(12,252)
Proceeds from disposal of property, plant and equipment	**—**	393
Proceeds from disposal of assets classified as held for sale	**183,375**	41,000
Land appreciation tax paid	**—**	(4,820)
Payments of other PRC taxes in relation to disposal of assets	**—**	(1,894)
Interest received	**4,346**	3,789
Receipts of cash from acquisition of a subsidiary	**—**	8
Net cash generated from investing activities	**180,101**	24,841
Cash flows from financing activities		
Proceeds from borrowings	**45,000**	48,000
Repayments of borrowings	**(33,000)**	(68,000)
Net cash generated from/(used in) financing activities	**12,000**	(20,000)
Net increase/(decrease) in cash and cash equivalents	**113,346**	(40,341)
Cash and cash equivalents at beginning of year	**777,201**	817,213
Exchange (losses)/gains on cash and cash equivalents	**(787)**	329
Cash and cash equivalents at end of year	**889,760**	777,201
Analysis of cash and cash equivalents		
Bank and cash balances	**889,760**	777,201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

China Creative Global Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The Company and its subsidiaries collectively referred to as the Group. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property which are carried at their fair values and assets classified as held for sales which are carried at their fair values less costs to sell.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise the judgements in the process of applying the accounting policies. The areas involving areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, investments at fair value through other comprehensive income), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination and goodwill (Continued)

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

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"). The consolidated financial statements are presented in RMB, which is the presentation currency and the functional currency of the Company and subsidiaries of the Group.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) Translation on consolidation

The results and financial position of all the Group's entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses 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 exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the exchange reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

(c) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised 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. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment property

Investment property is land and buildings held to earn rentals or for capital appreciation. An investment property (including property that is being constructed or developed for future use as investment property) is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Operating leases

The Group as lessee

Leases that do not substantially transfer all the risks and rewards of ownership of assets to the Group are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under financial assets at amortised cost.

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

— the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

— the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost 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 reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade and other payables

Trade and other payables are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other income

Interest income is recognised using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

Taxation

Income tax represents the sum of the current tax and deferred tax.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

PRC land appreciation tax ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures. LAT is recognised as an income tax expense. LAT paid is a deductible expense for PRC enterprise income tax purposes.

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets and intangible assets except goodwill, investment properties, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. KEY ESTIMATES

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

(a) Impairment of property, plant and equipment and land use rights

The Group carried out review of the recoverable amount of certain property, plant and equipment and land use rights by assessing value-in-use calculations. It estimates the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The directors have exercised their judgement and are satisfied that the method of calculations is reflective of the current market conditions. Based on this calculations, no impairment of property, plant and equipment and land use rights have been made since the carrying amounts of certain property, plant and equipment are lower than their value-in-use.

4. KEY ESTIMATES (Continued)

(a) Impairment of property, plant and equipment and land use rights (Continued)

In addition, the Group appointed an independent professional valuer to assess the fair values of certain property, plant and equipment and land use rights. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

Based on the impairment assessment, impairment loss of property, plant and equipment of approximately RMB10,831,000 (2017: approximately RMB53,100,000) has been made, as the carrying amounts of certain property, plant and equipment are higher than their recoverable amount.

(b) Useful lives of property, plant and equipment

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

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade receivables, deposits, prepayments and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the deposits, prepayments, trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) Provision for impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately RMB2,684,000 after an impairment loss of RMB6,825,000 was recognised during the year ended 31 December 2018. Details of the impairment loss calculation are provided in note 20 to the consolidated financial statements.

4. KEY ESTIMATES (Continued)

(e) Recoverability of intangible asset

During the year, the Group reconsidered the recoverability of its intangible asset, which is included in its consolidated statement of financial position at 31 December 2018 at RMB12,295,000, before the impairment. The Group carried out reviews of the recoverable amount of its intangible asset as a result of the deterioration of the markets of the Group's products. This asset are used in the Group's electric fireplaces and air purifiers segment. The review led to the recognition of an impairment loss of approximately RMB8,825,000 for the intangible asset that have been recognised in profit or loss.

(f) Fair value of investment property

The Group appointed an independent professional valuer to assess the fair values of the investment property. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(g) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax 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 differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in Hong Kong Dollars ("HKD") and the United States dollar ("USD") which is different from the functional currency of the Group entities, i.e. RMB, which expose the Group to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its foreign currency risk by monitoring the movement of the foreign currency rate and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2018, if RMB had weakened/strengthened by 5% against HKD and USD with all other variables held constant, the Group's loss after tax for the year would have been approximately RMB6,253,000 higher/lower (2017: approximately RMB5,618,000 higher/lower), arising mainly as a result of the foreign exchange differences on borrowings and other payables denominated in HKD.

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

The carrying amount of bank and cash balances, trade and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings.

In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

— internal credit rating;

— external credit rating (if available);

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

— actual or expected significant changes in the operating results of the borrower;

— significant increases in credit risk on other financial instruments of the same borrower; and

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

As at 31 December 2018, there were three customers (2017: three) which individually contributed over 10% of the Group's trade receivables. The amount of trade receivables from these customers amounted to 88% (2017: 91%) 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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follow:

	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	Total undiscounted cash flow RMB'000	Carrying amounts RMB'000
At 31 December 2018						
Trade and other payables	**30,528**	**—**	**—**	**—**	**30,528**	**30,528**
Borrowings	**164,750**	**580**	**11,222**	**—**	**176,552**	**168,614**
	195,278	**580**	**11,222**	**—**	**207,080**	**199,142**
At 31 December 2017						
Trade and other payables	45,244	—	—	—	45,244	45,244
Borrowings	27,813	126,009	1,647	9,717	165,186	147,762
	73,057	126,009	1,647	9,717	210,430	193,006

(d) Interest rate risk

The Group's bank and cash balances and borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

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 2018, if interest rates on bank and cash balances and borrowings with fixed 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 RMB8,898,000 lower/higher (2017: RMB6,319,000 lower/higher).

5. FINANCIAL RISK MANAGEMENT (Continued)

(e) Categories of financial instruments at 31 December

	2018 RMB'000	2017 RMB'000
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	**1,267,741**	940,940
Financial liabilities:		
Financial liabilities at amortised cost	**199,142**	193,006

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

6. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosures of level in fair value hierarchy at 31 December:

	Fair value measurements using:			**Total**
	Level 1	**Level 2**	**Level 3**	**2018**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurements:				
Investment property				
Commercial — PRC	**—**	**—**	**70,300**	**70,300**

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements:				
Investment property				
Commercial — PRC	—	—	70,000	70,000

During the year ended 31 December 2018, there were no transfer between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil). The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Reconciliation of assets measured at fair value based on level 3:

	Investment property 2018 RMB'000
At 1 January 2018	**70,000**
Total gains recognised in profit or loss (#)	**300**
At 31 December 2018	**70,300**
(#) include gains or losses for assets held at end of reporting period	**300**

6. FAIR VALUE MEASUREMENTS (Continued)

(b) (Continued)

	Investment property 2017 RMB'000
At 1 January 2017	110,400
Total losses recognised in profit or loss (#)	(40,400)
At 31 December 2017	70,000
(#) include gains or losses for assets held at end of reporting period	(40,400)

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in the consolidated statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December:

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The chief financial officer reports directly to directors for these fair value measurements. Discussions of valuation processes and results are held between the chief financial officer and directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

As at the years ended 31 December 2018 and 2017, the Group has engaged an independent valuer, Roma Appraisals Limited, to determine the fair values of the investment property.

6. FAIR VALUE MEASUREMENTS (Continued)

(c) (Continued)

Key unobservable inputs used in level 3 fair value measurements are mainly:

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2018 RMB'000
Investment property	Income approach	(1) Current average monthly rental per square meter	RMB30	Increase	
		(2) Reversionary yield	13%	Decrease	
		(3) Average monthly rental per square meter during reversionary period	RMB27	Increase	70,300

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2017 RMB'000
Investment property	Income approach	(1) Current average monthly rental per square meter	RMB29	Increase	
		(2) Reversionary yield	13%	Decrease	
		(3) Average monthly rental per square meter during reversionary period	RMB27	Increase	70,000

During the two years, there were no changes in the valuation techniques used.

7. REVENUE

The Group manufactures and sells electric fireplaces, air purifiers, home decor products and humidifiers to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 60 to 90 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

7. REVENUE (Continued)

Disaggregation of revenue from contracts with customers:

	2018 RMB'000	2017 RMB'000
Major products		
Electric fireplaces and air purifiers	**105,782**	103,129
Home decor products	**46,719**	44,677
	152,501	147,806
Geographical markets		
PRC	**66,935**	67,049
France	**77,615**	71,461
America	**4,878**	3,662
Others	**3,073**	5,634
	152,501	147,806
Timing of revenue recognition		
At a point in time	**152,501**	147,806

8. SEGMENT INFORMATION

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 has two reportable segments 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 and holding corporate assets and liabilities. Corporate assets and liabilities mainly include investment 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 and other assets for corporate functions are grouped under "others".

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

8. SEGMENT INFORMATION (Continued)

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

Information about reportable segment profit or loss, assets and liabilities:

	Electric fireplaces and air purifiers RMB'000	Home decor products RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2018				
Segment revenue				
— PRC	28,328	39,115	—	67,443
— International	77,616	7,950	—	85,566
	105,944	47,065	—	153,009
Less: Inter-segment revenue	(162)	(346)	—	(508)
Revenue from external customers	105,782	46,719	—	152,501
Segment results	(110,135)	(6,793)	(7,332)	(124,260)
Unallocated expense				(617)
Finance costs				(20,224)
Loss before tax				(145,101)
Income tax expense				(792)
Loss for the year				(145,893)
Other segment items:				
Additions to:				
Intangible asset	15,126	—	—	15,126
Property, plant and equipment	268	—	—	268
Depreciation and amortisation	28,022	1,033	617	29,672
Impairment losses on property, plant and equipment	10,831	—	—	10,831
Impairment losses on prepayments	22,360	—	—	22,360
Impairment losses on goodwill and intangible asset	15,650	—	—	15,650
Fair value gain on investment property	—	—	300	300
Interest income	768	622	2,956	4,346
As at 31 December 2018				
Segment assets	1,523,509	390,626	253,789	2,167,924
Segment liabilities	17,170	7,650	186,249	211,069

8. SEGMENT INFORMATION (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 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 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 amortisation	28,014	1,489	625	30,128
Impairment losses on property, plant and equipment	52,557	543	—	53,100
Impairment losses on investment in an associate	—	—	10,335	10,335
Fair value loss on 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

8. SEGMENT INFORMATION (Continued)

Revenue from major customers:

	2018 RMB'000	2017 RMB'000
Electric fireplaces and air purifiers segment		
Customer A	**23,619**	28,430
Customer B	**77,615**	71,404
Customer C	**3,752**	389
Home decor products segment		
Customer A	**23,006**	18,629
Customer C	**15,779**	9,602

During the year ended 31 December 2018, the Group's revenue are derived from three (2017: two) 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.

Revenue from customer C did not contribute over 10% of the Group's revenue for the year ended 31 December 2017. The amount was shown for comparative purpose.

9. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Bank interest income	**4,346**	3,789
Rental income	**7,881**	8,547
	12,227	12,336

10. OTHER LOSSES — NET

	2018 RMB'000	2017 RMB'000
Net foreign exchange loss	**(2,770)**	(1,924)
Gain on disposal of assets classified as held for sale	**—**	5,458
Loss on disposal/written-off of property, plant and equipment	**(19,616)**	(1,825)
Loss on disposal of a land use right	**—**	(663)
Other PRC taxes in relation to the disposal of assets	**—**	(1,894)
Others	**44**	—
	(22,342)	(848)

10. OTHER LOSSES — NET (Continued)

The amount of loss on disposal/written-off of property, plant and equipment mainly represent the written-off of a show room located in Quanzhou, the PRC. During the year ended 31 December 2018, management of the Group had assessed the usability of the show room and the Group decided to write off the show room with carrying amount of RMB19,593,000.

11. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest expense on borrowings	12,922	13,359
Net foreign exchange loss/(gain)	7,302	(9,775)
	20,224	3,584

12. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax — PRC Enterprise Income Tax:		
Provision for the year	—	2,154
Withholding tax	792	827
Over provision in prior years	—	(2,799)
Land appreciation tax	—	4,820
	792	5,002
Deferred income tax (Note 29)	—	756
Income tax expense	792	5,758

(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 taxation in Hong Kong has been made as the Group did not have any assessable profit arising from Hong Kong for both years.

12. INCOME TAX EXPENSE (Continued)

(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 and Allen Electronics Co., Ltd. Anhui, 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.

(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 2018 and 2017.

(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.

12. INCOME TAX EXPENSE (Continued)

(v) **Land appreciation tax** (Continued)

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:

	2018 RMB'000	2017 RMB'000
Loss before tax	**(145,101)**	(168,794)
Tax calculated at domestic tax rates applicable to losses in the respective countries	**(32,875)**	(35,759)
Effects of the preferential tax rates	**7,018**	2,991
Expenses not deductible for taxation purposes	**743**	421
Temporary difference not recognised	**5,870**	13,275
Tax losses not recognised	**19,244**	23,187
Over provision in prior years	**—**	(2,799)
Provision for land appreciation tax	**—**	4,820
Tax effect of land appreciation tax	**—**	(1,205)
Withholding tax	**792**	827
Tax charge	**792**	5,758

13. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2018 RMB'000	2017 RMB'000
Auditor's remuneration	**1,680**	2,422
Cost of inventories sold	**133,552**	117,999
Depreciation of property, plant and equipment	**22,860**	25,872
Amortisation of land use rights	**3,981**	4,256
Amortisation of intangible asset	**2,831**	—
(Reversal of loss allowance)/loss allowance for trade receivables	**(582)**	2,752
Impairment losses on property, plant and equipment	**10,831**	53,100
Impairment losses on investment in an associate	**—**	10,335
Impairment losses on prepayments	**22,360**	—
Impairment losses on goodwill and intangible asset	**15,650**	—
Fair value (gain)/loss on investment property	**(300)**	40,400
Inventories written-off	**7,074**	634
Operating lease expenses in respect of office premises	**1,717**	708
Staff costs (including directors' remuneration):		
Salaries, bonuses and allowances	**42,944**	42,135
Retirement benefit scheme contributions	**13,143**	14,204
	56,087	56,339

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

(a) Directors' emoluments

The details of directors' emoluments are set out below:

	As Director (Note (i))			As Management (Note (ii))	
	Fees	Salary	Employer's contribution to pension scheme	Employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Chen Fanglin	—	605	389	604	1,598
Mr. Shen Jianzhong	—	122	196	486	804
Mr. Chen Jiang (Note (v))	506	—	—	—	506
Mr. Xu Qiang (Note (v))	506	—	—	—	506
Mr. Zheng Hebin (Note (vi))	—	95	192	503	790
Mr. Lo Kei Wai Paul (Note (vii))	30	—	—	—	30
Independent Non-executive Directors					
Mr. Dai Jianping	101	—	—	—	101
Mr. Ng Wing Keung	101	—	—	—	101
Ms. Sun Kam Ching	101	—	—	—	101
Total for 2018	1,345	822	777	1,593	4,537
Executive Directors					
Mr. Chen Fanglin	—	631	408	630	1,669
Mr. Chen Hongming (Note (viii))	—	149	47	588	784
Mr. Shen Jianzhong	—	159	52	633	844
Mr. Chen Jiang (Note (v))	476	—	—	—	476
Mr. Xu Qiang (Note (v))	476	—	—	—	476
Mr. Zheng Hebin (Note (vi))	—	43	—	229	272
Independent Non-executive Directors					
Mr. Dai Jianping	104	—	—	—	104
Mr. Ng Wing Keung	104	—	—	—	104
Ms. Sun Kam Ching	104	—	—	—	104
Total for 2017	1,264	982	507	2,080	4,833

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

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 (2017: 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 (2017: Nil).

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

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

(vii) The director has been appointed on 28 November 2018.

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

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included four (2017: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one (2017: one) individuals are set out below:

	2018 **RMB'000**	2017 RMB'000
Wages and salaries (including discretionary bonuses) and other benefits	**548**	519
Social security and pension costs	**15**	16
	563	535

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (Continued)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following band:

	2018 No. of employees	2017 No. of employees
Nil to HK$1,000,000	**1**	1

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

16. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB145,893,000 (2017: RMB174,552,000) and the weighted average number of ordinary shares of 2,161,863,000 (2017: 2,034,247,000) in issue during the year.

Diluted loss per share

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary sharing during the years ended 31 December 2018 and 2017.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
At 1 January 2017	718,593	37,483	3,191	2,167	761,434
Additions	—	1,353	30	—	1,383
Disposals/written-off	(2,250)	(1,263)	—	—	(3,513)
At 31 December 2017	716,343	37,573	3,221	2,167	759,304
Additions	—	268	—	—	268
Disposals/written-off (Note (a))	(25,007)	—	—	(233)	(25,240)
At 31 December 2018	691,336	37,841	3,221	1,934	734,332
Accumulated depreciation and impairment					
At 1 January 2017	112,197	17,617	2,009	1,755	133,578
Charge for the year	22,044	3,174	422	232	25,872
Impairment loss (Note (b))	53,100	—	—	—	53,100
Disposals/written-off	(925)	(370)	—	—	(1,295)
At 31 December 2017	186,416	20,421	2,431	1,987	211,255
Charge for the year	19,413	2,997	337	113	22,860
Impairment loss (Note (b))	—	10,831	—	—	10,831
Disposals/written-off (Note (a))	(5,414)	—	—	(210)	(5,624)
At 31 December 2018	200,415	34,249	2,768	1,890	239,322
Carrying amounts					
At 31 December 2018	490,921	3,592	453	44	495,010
At 31 December 2017	529,927	17,152	790	180	548,049

Notes

(a) The amount of disposal/written-off of property, plant and equipment mainly represent the written-off of a show room located in Quanzhou, the PRC. During the year ended 31 December 2018, management of the Group had assessed the usability of the show room and the Group decided to write off the show room with carrying amount of RMB19,593,000.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes (Continued)

(b) As at 31 December 2018, the Group had property, plant and equipment and land use rights before impairment provision of approximately RMB612,979,000 (2017: RMB655,188,000) and RMB178,971,000 (2017: RMB182,952,000) respectively, located in Anhui and Quanzhou, the PRC. For the year ended 31 December 2018, 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 and land use rights in Anhui and Quanzhou. Therefore, management has performed an impairment assessment on the property, plant and equipment and land use rights of the CGUs. The recoverable amount of the property, plant and equipment and land use rights has been determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurement), the discount rate used was 17%. Also, the management has engaged an independent professional valuer to perform a valuation on buildings and land use rights, taking into account the current status of the assets and market price or transactions for similar assets. The valuation is categorised under level 2 of the fair value hierarchy. In view of the current status of the CGUs, management considered that the recoverable amount of the buildings and land use rights 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 buildings and land use rights based on fair value less costs of disposal.

The reviews led to the recognition of an impairment loss of RMB10,831,000 (2017: RMB53,100,000), that has been recognised in profit or loss.

18. INVESTMENT PROPERTY

	2018 **RMB'000**	2017 RMB'000
At 1 January	**70,000**	110,400
Fair value gain/(loss)	**300**	(40,400)
At 31 December	**70,300**	70,000

Investment property was valued at 31 December 2018 and 2017 by an independent qualified valuer, Roma Appraisals Limited.

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.

For the fair value measurement of investment property please refer to Note 6.

19. LAND USE RIGHTS

	2018 RMB'000	2017 RMB'000
At 1 January	**182,952**	205,224
Disposal	**—**	(18,016)
Amortisation	**(3,981)**	(4,256)
At 31 December	**178,971**	182,952

	2018 RMB'000	2017 RMB'000
Analysed for reporting purpose as:		
Non-current assets	**174,990**	178,971
Current assets	**3,981**	3,981
	178,971	182,952

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

At 31 December 2018 the carrying amount of land use rights amounted to approximately RMB71,260,000 (2017: RMB72,793,000) was pledged as security for the Group's bank borrowings, as set out in Note 28 to the consolidated financial statements.

For the impairment testing of land use rights please refer to Note 17.

20. GOODWILL AND INTANGIBLE ASSET

	Goodwill (Note a) RMB'000	Distribution right (Note b) RMB'000	Total RMB'000
Cost			
At 1 January 2017	—	—	—
Additions	9,509	—	9,509
At 31 December 2017 and 1 January 2018	9,509	—	9,509
Additions	—	15,126	15,126
At 31 December 2018	9,509	15,126	24,635
Accumulated impairment losses			
At 1 January 2017, 31 December 2017 and 1 January 2018	—	—	—
Amortisation for the year	—	2,831	2,831
Impairment loss	6,825	8,825	15,650
At 31 December 2018	6,825	11,656	18,481
Carrying amounts			
At 31 December 2018	2,684	3,470	6,154
At 31 December 2017	9,509	—	9,509

Notes

(a) 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.

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.

The recoverable amounts of the CGUs are determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

20. GOODWILL AND INTANGIBLE ASSET (Continued)

Notes (Continued)

(a) Goodwill (Continued)

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 17%. The discount rate used reflects specific risks related to the Group.

At 31 December 2017, 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.

At 31 December 2018, due to changes in market condition, the Group has revised its cash flow forecasts for this CGUs. The goodwill allocated to the Group's electric fireplaces and air purifiers segment has therefore been reduced to its recoverable amount of RMB2,684,000 through recognition of an impairment loss against goodwill of approximately RMB6,825,000 during the year (2017: Nil).

(b) Distribution right

During the year ended 31 December 2018, the Company issued 90,000,000 ordinary shares as a consideration for obtaining a distribution right for purebed air purifier (Note 30). The distribution right is carried at cost less amortisation over its useful lives, which is approximately 5 years, and impairment for finite life assets.

The Group carried out review of the recoverable amount of the distribution right as at 31 December 2018 as a result of the deterioration of the markets of the Group's products. The distribution right is used in the Group's electric fireplaces and air purifiers segment. The review led to the recognition of an impairment loss of approximately RMB8,825,000 for the distribution right that has been recognised in profit or loss. The recoverable amount of the distribution right of RMB3,470,000 has been determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The discount rate used was 17%.

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials and consumables	1,893	3,349
Work in progress	1,468	5,782
Finished goods	4,006	5,010
	7,367	14,141

22. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

	2018 RMB'000	2017 RMB'000
Trade receivables	**58,064**	94,928
Provision for loss allowance	**(2,170)**	(2,752)
	55,894	92,176

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2018 RMB'000	2017 RMB'000
0–30 days	**9,364**	12,850
31–60 days	**13,082**	20,739
61–90 days	**7,859**	20,977
Over 90 days	**25,589**	40,362
	55,894	94,928

Reconciliation of loss allowance for trade receivables:

	2018 RMB'000	2017 RMB'000
At 1 January	**2,752**	2,378
(Decrease)/increase in loss allowance for the year	**(582)**	2,752
Amounts written off	**—**	(2,378)
At 31 December	**2,170**	2,752

22. TRADE RECEIVABLES (Continued)

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	Over 30 days past due	Over 60 days past due	Over 90 days past due	Total
At 31 December 2018					
Weighted average expected loss rate	**—**	**—**	**—**	**24.97%**	
Receivable amount (RMB'000)	**26,645**	**12,646**	**10,081**	**8,692**	**58,064**
Loss allowance (RMB'000)	**—**	**—**	**—**	**2,170**	**2,170**
At 31 December 2017					
Weighted average expected loss rate	—	—	—	15.97%	
Receivable amount (RMB'000)	48,017	17,467	12,213	17,231	94,928
Loss allowance (RMB'000)	—	—	—	2,752	2,752

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Current		
Deposits and prepayments	**1,676**	1,086
Prepayment for advertising and promotion (Note (a))	**72,009**	—
Receivables for disposal of assets classified as held for sale (Note (b))	**54,210**	54,210
Receivables for disposal of a land use right (Note (c))	**17,353**	17,353
Receivable for termination of commercial buildings (Note (d))	**237,500**	—
Prepayments for property, plant and equipment and land use rights (Note (e))	**49,000**	—
Accrued rental income	**524**	—
Others	**92**	498
	432,364	73,147
Non-current		
Prepayment for commercial buildings (Note (d))	**—**	272,360
Receivable for termination of commercial buildings (Note (d))	**12,500**	—
Prepayments for construction costs	**19,604**	12,252
Prepayments for property, plant and equipment and land use rights (Note (e))	**—**	49,000
	32,104	333,612

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Reconciliation of deposits, prepayments and other receivables:

	2018 RMB'000	2017 RMB'000
At 1 January	**406,759**	330,011
Increase in deposits, prepayments and other receivables	**80,069**	76,748
Impairment loss on prepayment for commercial buildings	**(22,360)**	—
At 31 December	**464,468**	406,759

Notes

(a) During the year ended 31 December 2018, the Group entered into certain advertising and promotion agreements with several service providers in order to expand the PRC market, promote new products and stimulate sales.

(b) During the year ended 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 was reclassified as other receivables. As at 31 December 2017 and 2018, the compensation amounting to RMB54,210,000 has not yet been received by the Group. Subsequent to the end of reporting period, the Group had received RMB15,000,000 on 28 February 2019. On 8 March 2019, the Group entered into an agreement with the parties that the remaining balance of RMB34,124,000 is scheduled to be refunded to the Group in year 2019.

(c) 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 35) as at 31 December 2018. The amount is unsecured, non-interest bearing, denominated in RMB and approximate the fair value. Subsequent to the end of reporting period, the Group had received RMB7,000,000 on 5 March 2019.

(d) The balance represents the prepayment to purchase commercial buildings and the respective land use rights from an independent third party ("the developer") with a consideration of RMB272,360,000 on 23 November 2015. As at 31 December 2018, the construction of the commercial buildings has not yet been completed. On 12 March 2019, the Group entered into a termination agreement with the developer that RMB237,500,000 and RMB12,500,000 are scheduled to be refunded to the Group in year 2019 and 2020 respectively. The Group was assessed the prepayment of RMB22,360,000 to be unrecoverable and impairment has been made and reflected in the consolidated statement of profit or loss and other comprehensive income.

(e) 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 2018, the Group is still in negotiation with the seller and the local government on the transferral of land use rights certificate. According to the communication with the local government, the management expected that the acquisition of the land use rights and buildings will be completed before 30 June 2019.

24. BANK AND CASH BALANCES

As at 31 December 2018, the bank balances carry interest at average market rates ranging from 0.01% to 0.53% (2017: 0.01% to 0.54%) per annum. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

25. 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 categorised in level 2 of the fair value hierarchy. During the year ended 31 December 2016 and 2017, certain assets classified as held for sale amounted to RMB19,800,000 had been received from the local government of Quanzhou, and RMB89,752,000 have been resumed by the local government of Quanzhou and was reclassified as other receivables 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 recognised at fair value less cost to sale as at 31 December 2017. On 6 March 2018, the Group completed the disposal of asset held for sale and approximately RMB183,375,000 had been received during the year ended 31 December 2018.

	2018 **RMB'000**	2017 RMB'000
At 1 January	**187,200**	89,752
Transfer	**—**	187,200
Disposal	**(187,200)**	(89,752)
At 31 December	**—**	187,200

26. INVESTMENT IN AN ASSOCIATE

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

	2018 **RMB'000**	2017 RMB'000
At 1 January	**—**	210,820
Share of loss	**—**	(13,285)
Impairment provision	**—**	(10,335)
Transfer to assets classified as held for sale	**—**	(187,200)
At 31 December	**—**	—

26. 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.

27. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	RMB'000
Trade payables	**14,997**	28,424
Other tax payable	**1,876**	1,204
Salary and welfare payables	**4,589**	4,405
Retention fee payables	**2,790**	3,330
Interest payables	**2,244**	2,178
Others	**4,032**	5,703
	30,528	45,244

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

	2018	2017
	RMB'000	RMB'000
0–30 days	**3,687**	7,215
31–60 days	**2,235**	3,081
61–90 days	**3,662**	11,914
Over 90 days	**5,413**	6,214
	14,997	28,424

28. BORROWINGS

	2018 RMB'000	2017 RMB'000
Bonds (Note (a))	**138,614**	129,762
Bank borrowings (Note (b))	**30,000**	18,000
	168,614	147,762

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

	2018 RMB'000	2017 RMB'000
On demand or within one year	**159,724**	18,000
In the second year	**—**	121,468
In the third to fifth years, inclusive	**8,890**	—
After five years	**—**	8,294
	168,614	147,762
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(159,724)**	(18,000)
Amount due for settlement after 12 months	**8,890**	129,762

Notes

(a) Bonds comprise principal amounts of:

(i) HKD7,000,000 (approximately RMB5,722,000) 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 RMB129,724,000) 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 RMB3,168,000) due in 2023 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 and 2018, the bank borrowings are either repayable within one year or repayable on demand and with fixed interest rate. The carrying amounts of the Group's bank borrowings approximate their fair values due to short maturity date.

As at 31 December 2018, the Group's bank borrowings were secured by land use rights with aggregate net book value of approximately RMB71,260,000 (2017: RMB72,793,000), as set out in Note 19 to the consolidated financial statements.

As at 31 December 2018, the weighted average interest rate of the Group's borrowings is 8.19% (2017: 8.12%).

29. DEFERRED TAX LIABILITIES

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:

	2018 RMB'000	2017 RMB'000
At 1 January	**(6,133)**	(5,377)
Credited to the profit or loss (Note 12)	**—**	(756)
At 31 December	**(6,133)**	(6,133)

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

	Accelerated accounting depreciation RMB'000	**Un-distributed earnings** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2017	1,700	(7,833)	756	(5,377)
Charged to the profit or loss	—	—	(756)	(756)
At 31 December 2017, 1 January 2018 and 31 December 2018	1,700	(7,833)	—	(6,133)

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**1,700**	1,700
Deferred tax liabilities	**(7,833)**	(7,833)
	(6,133)	(6,133)

At the end of the reporting period, the Group has unused tax losses of approximately RMB197,249,000 (2017: RMB116,643,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unrecognised tax losses of approximately RMB197,249,000 will expire from 2019 to 2023 (2017: RMB116,643,000 will expire from 2018 to 2022), subject to final determination by tax authorities.

30. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares (thousands)	Nominal value of ordinary shares HKD
Authorised:		
At 31 December 2017 and 2018 (ordinary shares of HKD0.0001 (2017: HKD0.0001 each)	10,000,000	1,000,000

	Number of ordinary (thousands)	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 2017	2,030,000	203	160	693,494	693,654
Issue of new shares (Note (i))	50,000	5	4	9,315	9,319
At 31 December 2017 and 1 January 2018	2,080,000	208	164	702,809	702,973
Issue of new shares (Note (ii))	90,000	9	7	14,509	14,516
At 31 December 2018	2,170,000	217	171	717,318	717,489

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

Notes

(i) 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 37) at an aggregate consideration of approximately HKD10,950,000 (equivalent to approximately RMB9,319,000), of which approximately HKD5,000 (equivalent to RMB4,000) was credited to share capital and the remaining balance of HKD10,945,000 (equivalent to RMB9,315,000) was credited to share premium account.

(ii) On 2 February 2018, the Company issued 90,000,000 ordinary shares of HKD0.0001 each at a premium of HKD0.1999 as a consideration for obtaining a distribution right for purebed air purifier (Note 20) at an aggregate consideration of approximately HKD18,000,000 (equivalent to approximately RMB14,516,000), of which approximately HKD9,000 (equivalent to RMB7,000) was credited to share capital and the remaining balance of HKD17,991,000 (equivalent to RMB14,509,000) was credited to share premium account.

31. RESERVES

(a) The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Capital reserve

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

(ii) Statutory reserve

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.

(c) Reserves of the Company

	Share premium RMB'000	**Capital reserve** RMB'000	**Retained earning/ (accumulated loss)** RMB'000	**Total** RMB'000
At 1 January 2017	693,494	715,521	16,797	1,425,812
Loss and total comprehensive expense for the year	9,315	—	(6,135)	3,180
At 31 December 2017	702,809	715,521	10,662	1,428,992
At 1 January 2018	**702,809**	**715,521**	**10,662**	**1,428,992**
Loss and total comprehensive expense for the year	**14,509**	**—**	**(25,420)**	**(10,911)**
At 31 December 2018	**717,318**	**715,521**	**(14,758)**	**1,418,081**

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 **RMB'000**	2017 RMB'000
Non-current asset		
Investment in a subsidiary	**1,286,725**	1,286,725
Current assets		
Amounts due from subsidiaries	**275,632**	278,259
Cash and cash equivalents	**3**	5
	275,635	278,264
Current liabilities		
Other payables	**5,494**	6,071
Net current assets	**270,141**	272,193
Total assets less current liabilities	**1,556,866**	1,558,918
Non-current liabilities		
Borrowings	**138,614**	129,762
NET ASSETS	**1,418,252**	1,429,156
Capital and reserves		
Share capital	**171**	164
Reserves	**1,418,081**	1,428,992
TOTAL EQUITY	**1,418,252**	1,429,156

The Company's statement of financial position was approved and authorised for issue by the board of directors on 29 March 2019 and are signed on its behalf by:

Chen Fanglin
DIRECTOR

Shen Jianzhong
DIRECTOR

33. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares and share buy-backs as well as the raising of new debts, if required.

34. COMMITMENTS

(a) Capital commitments

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

	2018 RMB'000	2017 RMB'000
Contracted but not provided for		
— Land use rights and property, plant and equipment	55,248	62,600

(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:

	2018 RMB'000	2017 RMB'000
Within one year	1,142	161
In the second to fifth years, inclusive	48	—
	1,190	161

34. COMMITMENTS (Continued)

(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:

	2018 RMB'000	2017 RMB'000
Within one year	**7,038**	6,600
In the second to fifth years, inclusive	**30,154**	27,489
After five years	**62,157**	72,575
	99,349	106,664

35. RELATED PARTY TRANSACTIONS

As at 31 December 2018, the Group is controlled by China Wisdom Asia Limited (incorporated in the British Virgin Islands (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
Quanzhou Meiya Property Management Co., Ltd. (泉州美亞商業管理有限公司)	Significantly influenced by Mr. Chen Fanglin

(a) Transactions with related parties

	2018 RMB'000	2017 RMB'000
Sales of a land use right	**—**	17,353

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.

35. 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:

	2018 RMB'000	2017 RMB'000
Directors' fees	**1,345**	1,264
Basic salaries, housing allowances, other allowances and benefits in kind	**3,742**	3,584
Social security and pension costs	**952**	1,005
	6,039	5,853

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2018 are as follows:

Name	Place of incorporation	Issued and paid-up capital	Percentage of the ownership interest/ voting power Direct	Indirect	Principal activities
China Prosper Int'l Ltd. 華茂國際有限公司	The BVI	US$50,000	100%	—	Investment holding
Shine Ever Developments Limited 盛永發展有限公司	The BVI	US$100	100%	—	Investment holding
Allen International Holdings Limited 亞倫國際控股有限公司	Hong Kong	HK$10,000	—	100%	Investment holding
Allen China Co., Ltd. 亞倫(中國)有限公司	The PRC	RMB159,099,845	—	100%	Manufacturing and sale of home decor products and properties rental
Allen Electronics Co., Ltd. Fujian 福建亞倫電子電器科技有限公司	The PRC	HK$835,000,000	—	100%	Manufacturing and sale of electric fireplace
Quanzhou Allen Light Industry Co., Ltd. 泉州亞倫輕工有限公司	The PRC	US$10,000,000	—	100%	Manufacturing and sale of home decor products and properties rental
Allen Electronics Co., Ltd. Anhui 安徽亞倫電子科技有限公司	The PRC	RMB100,000,000	—	100%	Manufacturing and sale of electric fireplace
Asia Solar Star Limited 亞洲日星有限公司	Hong Kong	HK$100	—	100%	Investment holding
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	Nil	—	100%	Supply chain management
Aoshiweilang Environmental Technology (Shanghai) Limited 奥士威朗環保科技(上海)有限公司	The PRC	RMB7,930,000	—	100%	Trading of air purifiers

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of a subsidiary

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.

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.

The fair value of the identifiable assets and liabilities of Aoshiweilang Environmental Technology (Shanghai) Limited acquired as at its date of acquisition is as follows:

Net liabilities acquired:

	RMB
Inventories	976
Trade and other receivables	176
Bank and cash balances	8
Other payables	(1,350)
	(190)
Goodwill	9,509
	9,319
Satisfied by:	
50,000,000 ordinary shares of the Company	9,319
Net cash inflow arising on acquisition:	
Cash consideration paid	—
Cash and cash equivalents acquired	8
	8

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated cash flows from financing activities.

	Interest payable RMB'000	Borrowings RMB'000	Total RMB'000
At 1 January 2017	2,286	176,071	178,357
Changes in cash flows	(12,001)	(20,000)	(32,001)
Non-cash changes			
— interest charged	11,893	1,466	13,359
— exchange differences	—	(9,775)	(9,775)
At 31 December 2017 and at 1 January 2018	2,178	147,762	149,940
Changes in cash flows	(11,306)	12,000	694
Non-cash changes			
— interest charged	11,372	1,550	12,922
— exchange differences	—	7,302	7,302
At 31 December 2018	2,244	168,614	170,858

38. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the directors on 29 March 2019.

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				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**152,501**	147,806	349,744	1,281,926	1,409,006
Cost of sales	**(134,782)**	(119,574)	(257,246)	(808,514)	(840,026)
Gross profit	**17,719**	28,232	92,498	473,412	568,980
Other income	**12,227**	12,336	4,662	10,747	13,777
Other (losses)/gains-net	**(22,342)**	(848)	(775)	23,368	(2,880)
Selling and distribution costs	**(17,160)**	(13,778)	(27,466)	(52,099)	(64,111)
Administrative expenses	**(67,362)**	(71,280)	(79,467)	(84,892)	(78,651)
Impairment losses on property, plant and equipment	**(10,831)**	(53,100)	(54,039)	–	–
Impairment losses on investment in an associate	**–**	(10,335)	–	–	–
Impairment losses on prepayments	**(22,360)**	–	–	–	–
Impairment losses on goodwill and intangible asset	**(15,650)**	–	–	–	–
Fair value gain/(loss) on investment property	**300**	(40,400)	(12,000)	300	9,500
Reversal of loss allowance/(loss allowance) for trade receivables	**582**	(2,752)	–	–	–
Operating (loss)/profit	**(124,877)**	(151,925)	(76,587)	370,836	446,615
Finance costs	**(20,224)**	(3,584)	(16,254)	(3,612)	(2,420)
Share of loss of an associate	**–**	(13,285)	(533)	–	–
(Loss)/profit before income tax	**(145,101)**	(168,794)	(93,374)	367,224	444,195
Income tax expense	**(792)**	(5,758)	(2,144)	(68,231)	(89,282)
(Loss)/profit for the year attributable to equity holders of the Company	**(145,893)**	(174,552)	(95,518)	298,993	354,913
(Loss)/earnings per share — Basic and diluted (RMB)	**(0.07)**	(0.09)	(0.05)	0.16	0.20

ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**2,167,924**	2,287,987	2,474,997	2,600,661	2,382,667
TOTAL LIABILITIES	**211,069**	199,755	221,532	254,133	461,194
TOTAL EQUITY	**1,956,855**	2,088,232	2,253,465	2,346,528	1,921,473