OAO2C

2014 ANNUAL REPORT

Online And Offline Operation Integration

OAO運營一體化

中國家居控股有限公司
China Household Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 692)

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive directors:

Dr. Kaneko Hiroshi *(re-designated as executive director and appointed as CEO on 7 May 2014)*
Mr. Wong Man Pan *(resigned on 30 April 2014)*
Mr. Li Zhixiong
Mr. Fu Zhenjun
Mr. Kuang Yuanwei

Non-executive directors:

Mr. Xie Jianming
Mr. Zhu Qi
Mr. Yiu Kwok Ming, Tommy *(retired on 30 June 2014)*

Independent non-executive directors:

Mr. To Yan Ming, Edmond
Dr. Loke Yu
Mr. Lin Xuebin
Dr. Kaneko Hiroshi (re-designed as executive director and appointed as CEO on 7 May 2014)

COMPANY SECRETARY

Mr. Szeto Ka Fai, Thomas *(appointed on 3 April 2014)*
Mr. Tsang King Sun *(resigned on 31 March 2014)*

SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

Elite Partners CPA Limited
Certified Public Accountants
Suites 2B-4A, 20th Floor
Tower 5, China Hong Kong City
33 Canton Road
Tsim Sha Tsui
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications Co., Limited
Bank of China (Hong Kong) Limited

LEGAL ADVISORS

King and Wood Mallesons
Tso Au Yim & Yeung
Tang Tso & Lau

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite no. 1001B, 10/F., Tower 1
China Hong Kong City
33 Canton Road
Tsim Sha Tsui
Hong Kong

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

To Shareholders,

On behalf of the board of directors of the Company, I hereby present the annual report for the year ended 31 December 2014.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

FINANCIAL RESULTS

The global economy is still struggling to gain momentum as many high-income countries continue to grapple with legacies of the global financial crisis and emerging economies are less dynamic than in the past. Nevertheless, the Group has kept the growth momentum since 2013, and continued to strengthen its efforts on retail network in order to gain the market share.

During the year under review, the Group has recognised a loss attributable to the owners of the company of approximately HK$864,724,000 as compared with the net profit of approximately HK$159,296,000 in last year. The loss per share for the year ended 31 December 2014 was HK$0.293. Such decreased in net profit was mainly due to the impairment of the exploration and evaluation assets and the goodwill.

The uncertainties of the global economy did not affect seriously to the household business as the Group has strong clientele base and good reputation and the household business still maintained marginal profit. For the year ended 31 December 2014, the Group recorded an outstanding sales performance in household business surged 71%, boosting overall turnover by 76% to a record high of approximately HK$1,662,093,000. The household segment occupied around 95% of the Group's total turnover.

Distribution costs including costs related to sales and marketing functions of the Group were normally varied proportionally with the revenue. An obviously increment in distribution costs was in line with the increase in turnover. As compared to previous financial year, the administrative expenses were enlarged significantly by 139% to approximately HK$230,729,000 for the year ended 31 December 2014. The reasons were mainly attributable to the increase in provision of bad debt and the share base payment. The level of finance costs increased is mainly reflecting the related interest expenses on promissory notes, convertible notes, and strict bonds.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

Household Furnishing

In December 2013 and July 2014, the Group completed the acquisition of the Red Hero International Limited and its subsidiaries (the "Red Hero Group"), Polar Sunshine Wood Holdings Company Limited and its subsidiaries (the "Polar Sunshine Group") and Kassade Investment Limited and its subsidiaries (the "Kassade Group"), which will provide an opportunity for the Group to tap into further business opportunities in the heating wooden household products and also integrate the existing trading network. The Group believes they can bring a synergy effect with the existing household business. It is the strategy of the Group to continue to explore more business opportunities so as to strengthen its household business in the People's Republic of China (the "PRC").

During the year under review, the sales of household furnishing segment recorded a turnover of approximately HK$1,577,073,000. In order to provide the better customer experience, online shop was set up to provide DIY tailor-made model for customer who can design their own household products according to their preference, which will be stimulated online. The Group will also continuously monitor the production progress of our suppliers in order to ensure the product qualities and the production base with lower costs to further maximize the return of the household furnishing business in upcoming 2015.

Sale of Fabrics, Garments and Accessories

In respect of garment business, the Group still faced serve challenges due to the global economic slowdown, and the rising labour and material costs have brought enormous operating pressures to the Group. However, the Group overcame certain challenges through stringent cost control measures. During the year, despite the fact that the garment business contributed a turnover of approximately HK$6,824,000, representing an increase of 58% as compared to last year.

Mining Business

During the year under review, the application for the PRC approval of the Mine is still in progress and the Group did not have any operation in the mining business. Meanwhile, the Group has submitted the application for the license to the relevant authorities in order to commence the production in the upcoming future. The directors decided to postpone the mining plan and the Group expected all the required licences and approvals will be obtained by year 2017.

During the year, the mining business recorded an impairment loss of approximately HK$733,400,000.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

The Group owns the mining rights with a total area of 7.89 square km. During the year under review, details of the resources and reserves are shown below:

Resources and Reserves of the iron ("TFe") and titanium doxide ("TiO_2") mines under the JORC Code

(a) Resource summary (includes reserves)

	Tonnage	Grades		Contained metals	
	(Mt)	TFe (%)	TiO_2 (%)	TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Measured and indicated	40.7	29.4	13.9	11,966	5,657
Inferred	18.2	29.9	13.6	5,442	2,475
Dazuomugou area					
Measured and indicated	9.9	29.5	13.0	2,920	1,287
Inferred	11.1	29.1	13.9	3,230	1,543

(b) Reserve summary

	Tonnage	Grades		Contained metals	
	(Mt)	TFe (%)	TiO_2 (%)	TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Proven	21.5	29.4	14.0	6,321	2,996
Probable	19.2	29.4	13.8	5,645	2,650
Dazuomugou area					
Proven	—	—	—	—	—
Probable	9.9	29.5	13.0	2,920	1,287

There has been no material change in the estimated coal reserves and resources of the Group's iron and titanium dioxide mines, and the estimated iron and titanium dioxide as of 31 December 2014 are set out in the table above.

Fashion design

The global economy continues to show sluggish recovery. The markets remain challenging and price driven, which decreased the Group's revenue in the fashion business. During the year ended 31 December 2014, the Blue Champion Group was disposed and recognised a loss for approximately HK$2,325,000.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

Trading in securities

During the year under review, the Hong Kong Stock Market lacked a clear direction and investment appetite was affected by market concerns on an interest rate hike after US tapering which were reinforced with a slowdown in the growth of the economy of PRC. Against such a lackluster backdrop, the Group recorded approximately HK$17,793,000 realized loss arising from trading of securities.

Money lending business

During the year, the money lending market was under the intensive competition among the local competitors. The Group recorded a decline in interest income to approximately HK$166,000 for the year ended 31 December 2014 as compared to interest income of approximately HK$1,937,000 in 2013. The decrease of interest income is due to the more cautious approach taken by the management in the lending policy. While remaining cautions about granting new loans, the Group will continue to explore other money lending opportunities.

Information and technologies business

Despite of the challenging economic environment and competitive rivalry within the industry, the information and technologies business segment recorded an income of approximately HK$12,982,000 for the year ended 31 December 2014.

The Group is confident in overcoming all possible challenges ahead by leveraging its strong technological and intelligent product capabilities. The Group will continue to focus on the development of information technology related services in the PRC and strive to maintain stability of operation in 2015.

Prospect and Outlook

In the year of 2014, the global economic environment is experiencing subdued growth. However, the global recovery is still fragile despite improved prospects, and significant downside risks are expected to remain in the financial year 2015.

While challenging times still lay ahead, the Group is undergoing a gradual adjustment on business strategy and believes that it can overcome all challenges and turn unfavorable conditions to our advantages. As for the overall business strategy, PRC remains the Group's key development focus in the future. The Group aims to further increase the proportion of business from PRC within the Group's total revenue. The Group will also accelerate the expansion of its one-stop home programme network in Western and Southern China, as well as integrating the sales network of its various businesses to realise greater synergies and ultimately increase the Group's penetration throughout the country. Apart from the downstream one-stop solution for household development, the Group also strives to integrate the upstream and mid stream business for a complete combination of supply chain. Meanwhile, the Group is still looking optimistic of the household furnishing business and it will pursue its strategy of building the brand image of household products for business sustainability in the long run.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

The market conditions of sales of fabrics, garments and accessories, there are many uncertainties in the overall operating environment, especially the rising prices of raw materials and the growing domestic labor costs. It will bring great challenges to the future development of the garments business. In order to maintain a steady development of this segment, the Group will continue its conservative strategy by deploying its financial resources only in high profit margin orders, sourcing quality dyed fabrics and adopting stringent cost control measure.

In view of the global equities market, the U.S taper and structural reform in PRC, deflation jitters in Eurozone nations and the plight of markets bring uncertainties to the global economy. The sovereign debt crisis and the ongoing search for a consensus solution have paralyzed the economic recovery in Europe while engendering a crisis of confidence throughout most of the world. The Group will remain cautious about 2015 Hong Kong stock market performance and selectively and prudently invest in the dynamic environment ahead.

Iron ore took a massive beating in 2014. The steel-ingredient, which began declining in 2011, plummeted to double digit territory in May of this year and the outlook in 2015 is not good. Iron ore was one of the weakest commodities in 2014 and the trend is likely to continue. Nonetheless, the Group will keep abreast of changing market conditions and will adjust its business strategies to come up with opportunities for the mining business.

There are lots of challenges in the money lending service where the Group operates, including the implementation of various macroeconomic austerity measures by the Hong Kong Government to cool down the property market, the increase of the interest rate and the double stamp duty appreciation, etc. With the downtrend in the property and capital market, demand for consumer finance is expected to decrease. The operating environment will be burdened with these factors. Hence, there will be a more approach taken by the management in the lending policy.

The technologies business remains challenging and there is no clear visibility amid the continuing global economic uncertainties. Overcoming the challenging environment require consistence operational planning and shrewd execution and investment in innovative and enhance product mix that serves the needs of our customers. Going forward, the Group will continue to focus on innovative communication and customize service to achieve high reliability and integrity.

The management will navigate the Group in overcoming the challenges in the overall operating environment and continue to chart a pragmatic yet aggressive business course while flexibly adjusting its business strategies to capture more future opportunities for the Group to ensure steady development of its business.

Looking forward to 2015, the Group shall continue to put resources to strengthen its branding and position in the household furnishing business and to explore further quality investment opportunities to enhance shareholders wealth.

Liquidity and Financial Resources

At 31 December 2014, the Group had total assets of approximately HK$2,930,969,000 which were financed by total liabilities of approximately HK$1,336,655,000 and equity of approximately HK$1,594,314,000. Accordingly, the Group's ratio of debts to total assets and debts to equity are 46% (2013: 30%) and 84% (2013: 44%), respectively.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

The Group generally financed its operation by internal cash resources, bank financing and bond issuance. At 31 December 2014, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about approximately HK$244,746,000 (of which about approximately HK$1,073,000 was pledged with banks for banking facilities for the Group) and unutilised trade finance banking facilities for a total of approximately HK$19,777,000, which we consider sufficient for normal daily operation and expansion in 2015.

At 31 December 2014, the Group issued the bonds with an aggregate principal amount of HK$338,000,000. The coupon rate of these bonds is ranged from 5% to 8% per annum with maturity date from September 2015 to November 2022.

CAPITAL STRUCTURE

During the year ended 31 December 2014, the convertible notes amounted to HK$5,050,080 were converted into 42,084,000 ordinary shares of the Company.

Upon the completion of acquisition of the Polar Sunshine Group, the Company has issued 356,000,000 consideration shares to the Vendor at the issue price of HK$0.59 per consideration share on 14 July 2014 in satisfaction of the consideration.

On 10 November 2014 and 3 December 2014, the Company issued total of 2,000,000 shares to a share option holder at an exercise price of HK$0.485 per share. The Company received proceeds of HK$970,000.

Apart from the above, there was no change in the capital structure of the Company during the year under review.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At 31 December 2014, the Group had no contingent liabilities identified, and its bank deposits of approximately HK$1,073,000 were pledged with banks for banking facilities of the Group.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRADING SCHEMES

At 31 December 2014, the Group employed about 620 employees including sales and merchandising, accounting and administrative staff in Hong Kong and the PRC. The total staff costs and directors' remuneration for the year were approximately HK$50,921,000 employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 13 May 2013, Paradise Shadow Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party for the acquisition of the entire issued share capital of Kassade Group at consideration of HK$100,000,000. The deal was completed on 11 July 2014. Upon the completion, the Group issued the promissory note in principal amount of HK$100,000,000 as consideration and the principal amount of promissory note is subject to the adjustment of the amount of profit guarantee for the relevant profit guarantee for the relevant profit guaranteed period. The Kassade Group is principally engaged in manufacturing of floor tiles, various wood frames and other household wood products.

On 26 July 2013, Kingston Development Limited, a wholly-owned subsidiary of the Company entered into agreement with the independent third party for the acquisition of the entire issued share capital of the Polar Sunshine Group at a consideration of HK$210,040,000. The deal was completed on 17 July 2014. Upon the completion, the Group issued 356,000,000 consideration shares at the share price of HK$0.59 as consideration. In the event of the guaranteed profit cannot be met, the shortfall amount will be reimbursed by the Vendor as compensation. The Polar Sunshine Group is principal engaged in trading of heating wooden household products and other basis materials for heating wooden household products.

On 23 February 2015, Excel Growth Investments Limited, a wholly-owned subsidiary of the Company, entered in to an agreement with an independent third party for the acquisition of the entire issued share capital of China New Oriental Household Holdings Limited and its subsidiaries (the "New Oriental Group") at a consideration of HK$420,000,000. The New Oriental Group will be principally engaged in sales of door handles, mortise locks, electronic locks, electronic control locks, security locks, fingerprint locks, decoration hardware, bathroom hanging and household intelligence system. The consideration would be satisfied by way of issue of 540,000,000 consideration shares and the promissory note of HK$123,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit guaranteed period.

On 18 March 2015, the Company and Shenzhen Munsun Asset Management Limited entered into the Fund Establishment Framework Agreement, leverage on their respective advantages, the parties establish the Zhongshan Smart Household Fund LP of approximately RMB$2,000,000,000 (subject to the actual amount raised). The parties collectively establish and operate the fund and will both involve in the fund raising and customer attraction process. For the details of the main cooperative terms, please make reference to the announcement dated 18 March 2015.

APPRECIATION

I wish to extend my most sincere thanks and appreciation to staff at all level within the Group and my fellow directors of their collective efforts, loyalty and continuing support to the Group during the year.

Fu Zhenjun
Executive Director

Hong Kong, 30 March 2015

PROFILE OF THE MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Kaneko Hiroshi, aged 50, was appointed as an independent non-executive director on 5 November 2012 and re-designated from independent non-executive director to an executive director and is appointed as the chief executive officer of the Company with effect from 7 May 2014. Dr. Kaneko serves as the members of the Audit Committee, Remuneration Committee and Nomination Committee. He holds a Master of Engineering degree from Dalian University of Technology, PhD programs in Fudan University and doctoral degree of the apex science and technology from University of Tokyo. Dr. Kaneko has extensive research experience in the field of environment, development and economic science. He has been engaged in comprehensive utilization of environmental friendly materials and international trade for number of years. Dr. Kaneko is currently an executive director of Long Success International (Holdings) Limited, which is a company whose shares are listed on the GEM Board of the Hong Kong Stock Exchange.

Mr. Li Zhixiong, aged 42, was appointed as an executive director on 18 November 2013. He had served as an executive director of Sustainable Forest Holdings Limited, a listed company in Hong Kong from 2 September 2011 to 5 February 2013. Mr. Li has extensive experience in the Household business including over 20 years of manufacturing and sales experience of household products in China.

Mr. Fu Zhenjun, aged 45, was appointed as executive director on 23 March 2012. He is responsible for the business development of the Group. He has over 20 years of experience in sales and marketing. He has deep connection and relationship with people engaged in this aspect. Prior to joining the Group, he provided Enterprise Process Management services to some well-known PRC enterprises.

Mr. Kuang Yuanwei, aged 52, was appointed as executive director on 1 February 2013. He has over 20 years of experience in commercial banking industries and has held various senior positions in the banking industry prior joining the Group. Mr. Kuang has strong social networks and has established deep connections with people engaged in home furnishing industry.

NON-EXECUTIVE DIRECTORS

Mr. Xie Jianming, aged 69, was appointed as non-executive director on 20 May 2013. He has over 30 years of experience in politics, focusing on the economic analysis and co-ordination of the corporation. From 1997 to 2005, he was the chairman of Guangdong Provincial Railway Group Co., Ltd.(廣東省鐵路集團有限公司). From 2005 to 2008, he was the vice chairman of Guangdong Provincial Communication Group Company Limited(廣東省交通集團有限公司). From 2008 until now, he serves as an executive vice president and Secretary General of Guangdong transportation Association(廣東省交通運輸協會).

Mr. Zhu Qi, aged 68, was appointed as non-executive director on 20 May 2013. He is a senior accountant and politician, focusing on charity and accounting field of risk assessment. From 1994 to 2006, he was the general manger of Guangdong Second Light Industry Group Corporation(廣東二輕工業集團公司). From 2006 to 2008, he was a CPPCC (Chinese People's Political Consultative Conference) member of Guangdong Province. From 2006 until now, he serves as the vice president of Orphan Education Society Guangdong(廣東公益恤孤助學促進會), the adviser of Guangdong Think Tank Council(廣東智庫促進會)and the permanent honorary president of Guangdong Furniture Association(廣東省傢俱協會).

PROFILE OF THE MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. To Yan Ming, Edmond, aged 43, was appointed as an independent non-executive director on 24 April 2012. Mr. To serves as the Chairman of the Remuneration Committee, Chairman of Nomination Committee and the member of the Audit Committee. He holds a bachelor degree in Commerce in Accounting From Curtin University of Technology in Western Australia. Mr. To is a Certified Public Accountant practicing in Hong Kong and a director of Edmond To CPA Limited, Zhonglei (HK) CPA Company Limited and RCW (HK) CPA Limited. Mr. To is a member of both the CPA Australia and Hong Kong Institute of Certified Public Accountants. Mr. To worked for one of the international accounting firms, Deloitte Touche Tohmatsu and has over 10 years of experience in auditing, accounting, floatation and taxation matters. Mr. To is currently an independent non-executive director of China Vanguard Group Limited, which is a company whose shares are listed on the GEM Board of the Hong Kong stock exchange. Mr. To is also an independent non-executive director of BEP International Holdings Limited, Theme International Holdings Limited and Wai Chun Group Holdings Limited whose shares are listed on the main board of the Hong Kong Stock Exchange.

Dr. Loke Yu alias Loke Hoi Lam（陸海林）, aged 65, was appointed as an independent non-executive director on 9 August 2013. Dr. Loke serves as the Chairman of the Audit Committee and the member of the Nomination Committee of the Company. Dr. Loke has over 40 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of the Institute of Chartered Public Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; The Hong Kong Institute of Directors and The Hong Kong Institute of Chartered Secretaries. He is currently the company secretary of Minth Group Limited and serves as an independent non-executive director of the following companies whose shares are listed on the Stock Exchange: Chiho-Tiande Group Limited, VI Group Limited, Matrix Holdings Limited, Sino Distillery Group Limited, China Fire Safety Enterprise Group Limited, Winfair Investment Company Limited, SCUD Group Limited, Zhong An Real Estate Limited, Tianjin Development Holdings Limited, Wing Tai Investment Holdings Limited and Tianhe Chemicals Group Limited.

Mr. Lin Xuebin, aged 62, was appointed as an independent non-executive director on 9 August 2013. He serves as the member of the Remuneration Committee of the Company. He has over 20 years of experience in politics and cultural circles. He was a CPPCC (Chinese People's Political Consultative Conference) member of Wuchuan City, Secretary General of Wuchuan Shenzhen Chamber of Commerce（吳川深圳商會）and Deputy Director-General of Department of Cultural Affairs of Wuchuan City（吳川市文化局）.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board of Directors and senior management of the Company are committed to implement effective corporate governance policies to ensure that all decisions are made in the best interest of the Company and in accordance with the principles of transparency, fairness and integrity. Effective corporate governance policies have also been provided for the necessary checks and balances. The Company will continue to improve its corporate governance structure, so as to strengthen corporate monitoring and management to meet the expectations of its shareholders and stakeholders.

Throughout the year ended 31 December 2014, the Company has complied with the code provisions set out in the Corporate Governance Code ("the CG Code") contained in Appendix 14 to the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for certain deviations specified with considered reasons as disclosed in this annual report.

Deviation from CG Code

In respect of Code Provision A6.7 of the CG code, Mr. Li Zhixiong and Mr. Yiu Kwok Ming, Tommy, the executive director and non-executive director respectively, were unable to attend the annual general meeting of the Company held on 30 June 2014 (the "AGM") due to other crucial business commitment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. As confirmed by all directors after specific enquiry, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

BOARD OF DIRECTORS

The Board, currently comprises four executive directors, namely Dr. Kaneko Hiroshi (CEO) (Note 2), Mr. Li Zhixiong, Mr. Fu Zhenjun and Mr. Kuang Yuanwei and two non-executive directors, namely Mr. Xie Jianming and Mr. Zhu Qi and three independent non-executive directors, namely Mr. To Yan Ming, Edmond, Dr. Loke Yu and Mr. Lin Xuebin (Note 4). The independent non-executive directors are all experienced individuals from a range of industries. Their mix of skills and experience is an important element in the proper functioning of the board and in ensuring a high standard of objective debate and overall input to the decision-making process. The independent non-executive directors may seek for professional advice at the Company's expenses in carrying out their functions. Pursuant to the Listing Rules, every independent non-executive director has confirmed his independence with the Stock Exchange and provided an annual confirmation of his independence to the Company. The biographical details of all directors and their family relationship, if any, are provided on Pages 10 to 11 of this annual report. The Board had arranged insurance cover for their directors.

CORPORATE GOVERNANCE REPORT

The Board is accountable to shareholders. Its key responsibilities include the formulation of long-term business directions and strategies, monitoring of internal control, review of financial statements and approval of capital expenditures. The management is delegated with the authority to make decisions on daily operations related to the Company's business affairs. The Board reviews the performance of the management to ensure company policies are carried out properly and the business is run smoothly in the best interest of its shareholders.

Directors are entitled to seek independent professional advice at the Company's expense in connection with their duties and responsibilities as directors, subject to the prior consent of the Chairman.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and legal obligations of a director of a Hong Kong listed company, the Company's constitutional documents and the Guides on Directors' Duties issued by the Companies Registry to each newly appointed Director to ensure that he is sufficiently aware of his responsibilities and obligations under the Listing Rules and other regulatory requirements.

The company secretary reports from time to time the latest changes and development of Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, and the legal advisers of the Company prepare and provide the Directors with detailed interpretations and analysis on the revised contents for them to understand the latest developments in a timely and accurate manner and to perform their duties in accordance with relevant laws and regulatory requirements. All Directors of the Company (namely Dr. Kaneko Hiroshi (CEO), Mr. Li Zhixiong, Mr. Fu Zhenjun, Mr. Kuang Yuanwei, Mr. Xie Jianming, Mr. Zhu Qi, Mr. To Yan Ming, Edmond, Dr. Loke Yu, and Mr. Lin Xuebin) have participated in relevant trainings, and were provided with the above information for further development and update on their knowledge and skills, which in turn ensures that they could make adequate and suitable contributions to the Board.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

Fifty plenary board meetings and one annual general meeting were held during the year. Meeting agenda were settled by the Chairman to ensure adequate coverage of financial, strategic and major risk areas throughout the year. The attendance of directors at the meeting was as follows:

Member	Number of Board meetings attended/held	Number of Annual general meeting attended/held
Executive Directors		
Mr. Wong Man Pan *(Note 1)*	11/22	0/0
Dr. Kaneko Hiroshi *(Note 2)*	49/50	1/1
Mr. Li Zhixiong	49/50	0/1
Mr. Fu Zhenjun	50/50	1/1
Mr. Kuang Yuanwei	50/50	1/1
Non-executive Directors		
Mr. Xie Jianming	5/50	1/1
Mr. Zhu Qi	5/50	1/1
Mr. Yiu Kwok Ming, Tommy *(Note 3)*	0/34	0/1
Independent Non-executive Directors		
Mr. To Yan Ming, Edmond	49/50	1/1
Dr. Loke Yu	49/50	1/1
Mr. Lin Xuebin *(Note 4)*	48/50	1/1

Notes:

1. Resigned as chairman and executive director, and ceased to be the member of Remuneration Committee and Nomination Committee with effect from 30 April 2014
2. Re-designated from an independent non-executive director to an executive director and is appointed as the CEO with effect from 7 May 2014
3. Retired as an non-executive director with effect from 30 June 2014
4. Appointed as the member of Remuneration Committee with effect from 7 May 2014

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The posts of Chairman and CEO are separate. There is a clear distinction between their responsibilities. The Chairman is responsible for the Company's overall business directions and coordination between the Board and the Company's management, and the CEO is responsible for the business operations and executions of decisions made by the Board.

TERMS OF APPOINTMENTS AND RE-ELECTION OF DIRECTORS

At every annual general meeting ("AGM"), one third of the directors (other than the Chairman and Managing Director but including independent non-executive directors), or the nearest number to one third, shall retire from the office and be eligible for re-election. A director appointed since the most recent AGM shall hold office only until the next AGM and shall then be eligible for re-election. The directors to retire each year shall be the directors longest in office since being elected or re-elected. The non-executive and independent non-executive directors were appointed at specific terms for one year and three years respectively.

AUDIT COMMITTEE

The monitoring and assessment of certain governance matters are allocated to committees which operate under defined terms of reference and are required to report to the full board on a regular basis.

As at 31 December 2014, the Audit Committee comprises two independent non-executive directors, namely Dr. Loke Yu (Chairman of the Audit Committee), Mr. To Yan Ming, Edmond and one executive director, namely Dr. Kaneko Hiroshi (Note 2). Two meetings were held during the year.

Members	**Number of Audit Committee meetings attended/held**
Dr. Loke Yu *(Chairman of the Audit Committee)*	2/2
Mr. To Yan Ming, Edmond	2/2
Dr. Kaneko Hiroshi	2/2

The major roles and functions of the Audit Committee are as follows:

Relationship with the Company's auditor

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(d) to act as the key representative body for overseeing the Company's relations with the external auditor.

CORPORATE GOVERNANCE REPORT

Review of the Company's financial information

(e) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgemental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;

(f) regarding (e) above:

(i) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and

(ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Company's financial reporting system and internal control procedures

(g) to review the Company's controls, internal control and risk management systems;

(h) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions;

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

(j) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(k) to review the Group's financial and accounting policies and practices;

(l) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response.;

(m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(n) to review arrangements of employees, the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(o) to report to the Board on the matters in the relevant code provision stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and

(p) to consider other topics, as defined by the Board.

During the year, the Audit Committee reviewed and discussed the financial reporting matters, including the review of the interim and annual consolidated financial statements and the appointment of external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee was established to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee comprises two independent non-executive directors, namely Mr. To Yan Ming, Edmond (Chairman of the Remuneration Committee) and Mr. Lin Xuebin (Note 4) and one executive director, namely Dr. Kaneko Hiroshi (Note 2). The Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices. During the year, one Remuneration Committee meeting had been convened to discuss the remuneration policy of the Group.

Members	**Number of Remuneration Committee meeting attended/held**
Executive Director	
Dr. Kaneko Hiroshi *(Note 2)*	1/1
Independent non-executive directors	
Mr. To Yan Ming, Edmond *(Chairman of the Remuneration Committee)*	1/1
Mr. Lin Xuebin *(Note 4)*	1/1

CORPORATE GOVERNANCE REPORT

The major roles and functions of the Remuneration Committee are as follows:

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

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

(c) determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment.

(d) make recommendations to the Board on the remuneration of non-executive directors;

(e) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

(f) 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) 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) ensure that no director or any of his associates is involved in deciding his own remuneration.

NOMINATION COMMITTEE

The Nomination Committee is responsible for selecting Board members and ensuring transparency of the selection process. The Nomination Committee identifies individuals suitably qualified to become or continue to be the Board members by taking into considerations criteria like expertise, experience and commitment and makes recommendations to the Board on the selection of individuals nominated for directorships. The Nomination Committee currently comprises two independent non-executive directors, namely Mr. To Yan Ming, Edmond (Chairman of the Nomination Committee), and Dr. Loke Yu and one executive director, namely Dr. Kaneko Hiroshi (Note 2). The Committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices. Two meetings were held during the year.

Members	**Number of Nomination Committee meetings attended/held**
Executive Director	
Dr. Kaneko Hiroshi *(Note 2)*	2/2
Independent non-executive directors	
Mr. To Yan Ming, Edmond *(Chairman of the Nomination Committee)*	2/2
Dr. Loke Yu	2/2

The major roles and functions of the Nomination Committee are as follow:

(a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) assess the independence of independent non-executive directors;

(d) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman of the Board and the chief executive; and

(e) make recommendation of measurable objective for achieving diversity of the Board.

CORPORATE GOVERNANCE REPORT

In evaluating whether an appointee is suitable to act as a director, the Board will consider the skills and expertise of the appointee, as well as personal ethics, integrity and the willingness to commit time to the affairs of the Group. Where the appointee is appointed as an Independent Non-executive Director, the Nomination Committee will also consider his/her independence. During the year, the Nomination Committee reviewed the structure, size and composition of the Board and recommended to the Board the candidates for directorship and senior management and assessed the independence of the Independent Non-executive Directors.

FINANCIAL REPORTING

It is the responsibility of the Board to present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Board acknowledge their responsibility for the preparation of accounts which give a true and fair view. The financial statements are prepared in accordance with the requirements of the Listing Rules and other applicable regulations and industry best standards.

The responsibilities of independent external auditors to the shareholders are set out on pages 29 to 30 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times. The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

During the year under review, the Board has reviewed the internal control policy and concluded that in general, the Group's internal control system is effective and adequate, no material deficiencies have been identified.

EXTERNAL AUDITORS

The Company's independent external auditors are Elite Partners CPA Limited. The Audit Committee is responsible for considering the appointment of the external auditors and also reviews any non-audit functions performed by the external auditors for the Group. In particular, the Audit Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest and independence.

During the year ended 31 December 2014, the services provided by the Company's independent external auditors to the Group were as follows:

	2014	2013
	HK$'000	*HK$'000*
Audit services	**950**	650
Other assurance services	**150**	—
Non-assurance services	**175**	225

COMPANY SECRETARY

The company secretary is an employee of the Company and is appointed by the Board. He supports the chairman, Board and board committees by ensuring good information flow and reports to the Board and assists the Board in functioning effectively and efficiently. The company secretary also advises the Board on governance matters and facilitates the induction and professional development of directors. All directors of the Company may call upon him for advice and assistance at any time in respect to their duties and the effective operation of the Board and board committees.

Mr. Szeto Ka Fai Thomas has been the company secretary of the Company since 3 April 2014. During the year, Mr. Szeto undertook not less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS

The Company uses a number of formal communication channels to account to shareholders for the performance of the Company. These include the Annual Report, the Interim Report, periodic announcements made through the Stock Exchange and through AGM. Copies of relevant corporate and financial information are also made available through the Company's website: www.chh.hk.

The Company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by the Listing Rules. The Company also welcomes comments and questions from shareholders at its AGM.

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means.

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 14 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 31 to 123.

The directors do not recommend the payment of a dividend in respect of the year (2013: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 35 and note 34(b) to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2014, the Company had no distributable reserves. However, the Company's share premium account, in the amount of HK$1,908,071,000 (2013: HK$1,663,631,000) may be distributed in the form of fully paid bonus shares and the Company's contributed surplus is available for distribution under the conditions as detailed in note 34(b) to the consolidated financial statements.

DONATIONS

During the year, the Group did not make any charitable donation (2013: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 33 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group at 31 December 2014 are set out in note 27 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE YEARS 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 124. This summary does not form part of the audited financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

The directors during the year were:

Executive directors

Dr. Kaneko Hiroshi *(re-designated as executive director and appointed as CEO on 7 May 2014)*
Mr. Li Zhixiong
Mr. Fu Zhenjun
Mr. Kuang Yuanwei
Mr. Wong Man Pan *(resigned on 30 April 2014)*

Non-Executive directors

Mr. Xie Jianming
Mr. Zhu Qi
Mr. Yiu Kwok Ming, Tommy *(retired on 30 June 2014)*

Independent non-executive directors

Mr. To Yan Ming, Edmond
Dr. Loke Yu
Mr. Lin Xuebin
Dr. Kaneko Hiroshi *(re-designated as executive director and appointed as CEO on 7 May 2014)*

In accordance with Clause 99 of the Company's bye-laws, Dr. Kaneko Hiroshi, Mr. Fu Zhenjun, and Mr. To Yan Ming, Edmond will retire by rotation at the forthcoming annual general meeting. All the retiring directors are eligible for re-elections.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Connected and related party transactions and balances" set out in note 39 to the consolidated financial statements, no other contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on pages 10 to 11.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2014, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Shares — long position

The Company:

	Number of shares held				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Li Zhixiong	309,991,666	43,030,000	—	—	353,021,666

Interest in underlying share

The directors of the Company have been granted options under the Company's share option scheme, details of which are set out in note 35 to the consolidated financial statements.

Save as disclosed above and note 35 to the consolidated financial statements, at no time during the year had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Any parties (other than the directors) have long positions in the shares and underlying shares as recorded in the register as required to be kept by the Company pursuant to Section 336 of the SFO. As at 31 December 2014, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Shares — long position

The Company:

Name		Number of underlying shares interested	Percentage of issued share capital at 31 December 2014
Wu Guanwen	Beneficial owner	43,030,000	1.36%
	Held by spouse *(Note 1)*	309,991,666	9.79%
Zhang Jinguang	Beneficial owner	407,020,000	12.85%
Lin Kai	Beneficial owner	356,000,000	11.24%

Interest in underlying shares

Name		Number of underlying shares interested	Percentage of issued share capital at 31 December 2014
Noble Wonderland Limited	Beneficial owner *(Note 2)*	533,333,333 *(Note 3)*	16.84%

Notes:

1. Ms. Wu Guanwen is the spouse of Mr. Li Zhixiong, whose interest was disclosed in previous section.

2. Noble Wonderland Limited is legally and beneficially owned as to 60% by Mr. Chen Yaxing and 40% by Mr. Cai Zhisen. As at 31 December 2014, it held HK$480,000,000 convertible bonds of the Company.

3. The interest represents the maximum number of new shares which may be issued upon the full conversion of convertible bonds issued by the Company at the conversion price HK$0.9 per share.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

The following transaction between a connected party (as defined in the Listing Rules) of the Company and the Group have been entered into for which relevant circular and/or announcements, if necessary, had been made by the Company in accordance with Chapter 14A of the Listing Rules.

On 24 April 2013, Zhongshan City Prado Style Household Company Limited ("Zhongshan Prado") (a wholly foreign-owned enterprise established in the PRC and a wholly owned subsidiary of the Company) and New Oasis Wood Co. Limited ("New Oasis") entered into a Cooperation Agreement regarding the supply of household products, pursuant to which both parties wish to utilize their respective advantages in the household business so as to achieve mutual benefits to both parties, at an annual cap of RMB150,000,000 and RMB180,000,000 for each of two financial years ending 31 December 2013 and 31 December 2014 respectively. New oasis agrees to procure products from Zhongshan Prado with the value of not less than RMB100,000,000 per year. Both parties agrees that New Oasis will act as the sales representative of Zhongshan Prado in which the fee will not be more than or equal to 0.1% of the transaction value and the total amount will not be more than or equal to HK$1,000,000 per year, with due settlement by the end of each year. As one of the director of the Company was the director and shareholder of New Oasis shortly before entering into Cooperation Agreement, and therefore New Oasis is a connected person of the Company under Listing Rules and the Cooperation Agreement constituted continuing connected transactions. Details of the transactions are set out in the circular of the Company dated 9 August 2013. The sales of goods and commission of expenses incurred by the Group, details of which are set out in note 39 to the consolidated financial statements.

The aforesaid continuing connected transactions have been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with paragraph 14A.38 of the Listing Rules.

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.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	35%
— five largest suppliers combined	58%

Sales

— the largest customer	13%
— five largest customers combined	38%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DIRECTORS' INTEREST IN COMPETING INTEREST

None of the directors or the substantial shareholders (as defined in the Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

Please refer to the Corporate Governance Report on pages 12 to 21 of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. As confirmed by all directors after specific enquiry, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that the Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considered all of the independent non-executive directors to be independent throughout the year.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 40 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors, namely Dr. Loke Yu (Chairman of the Audit Committee), Mr. To Yan Ming, Edmond and one executive director, namely Dr. Kaneko Hiroshi. Two meetings were held during the current financial year. The Audit Committee had reviewed the audited results of the Group for the year ended 31 December 2014.

AUDITORS

The consolidated financial statements for the year ended 31 December 2014 were audited by Elite Partners CPA Limited.

A resolution for the appointment of Elite Partners CPA Limited as the auditors of the Company for the year ending 31 December 2015 will be proposed at the upcoming annual general meeting of the Company.

On behalf of the Board

Fu Zhenjun
Executive Director

Hong Kong, 30 March 2015

INDEPENDENT AUDITORS' REPORT

開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
Certified Public Accountants

To the shareholders of **China Household Holdings Limited**
(Incorporated in the Bermuda with limited liability)

We have audited the consolidated financial statements of China Household Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 123, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Elite Partners CPA Limited
Certified Public Accountants

Chan Wai Nam, William
Practising Certificate number P05957

Hong Kong
30 March 2015

Suites 2B-4A, 20th Floor,
Tower 5, China Hong Kong City,
33 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue	5	**1,662,093**	943,457
Cost of sales		**(1,155,181)**	(610,371)
Gross profit		**506,912**	333,086
Other income	5	**8,724**	53,272
Selling and distribution expenses		**(22,221)**	(8,285)
Administrative expenses		**(230,729)**	(96,672)
Other losses	5	**(861,700)**	(12,315)
Finance costs	6	**(108,929)**	(43,248)
(Loss)/profit before tax	7	**(707,943)**	225,838
Income tax expense	9	**(153,172)**	(71,677)
(LOSS)/PROFIT FOR THE YEAR		**(861,115)**	154,161
Attributable to:			
owners of the Company		**(864,724)**	159,296
non-controlling interests		**3,609**	(5,135)
		(861,115)	154,161
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**(HK$0.293)**	HK$0.064
Diluted		**(HK$0.293)**	HK$0.060

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 **_HK$'000_**	2013 _HK$'000_
(LOSS)/PROFIT FOR THE YEAR	**(861,115)**	154,161
OTHER COMPREHENSIVE (EXPENSE)/INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(3,937)**	3,517
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF TAX	**(3,937)**	3,517
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR	**(865,052)**	157,678
Total comprehensive (expense)/income for the year attributable to:		
Owners of the Company	**(868,658)**	162,806
Non-controlling interests	**3,606**	(5,128)
	(865,052)	157,678

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**31,596**	33,055
Lease premiums for land	13	**109,849**	113,808
Exploration and evaluation assets	15	**805,600**	1,539,000
Intangible assets	16	**143,908**	44,929
Loan receivables	21	**—**	123
Other financial assets	17	**253,919**	185,184
Deferred tax assets	18	**—**	40,207
Goodwill	19	**652,649**	588,279
Total non-current assets		**1,997,521**	2,544,585
CURRENT ASSETS			
Inventories	20	**122,316**	47,874
Lease premiums for land	13	**3,959**	3,959
Loan receivables	21	**332**	2,060
Trade and bills receivables	22	**323,180**	166,489
Prepayments, deposits and other receivables	23	**224,368**	265,089
Equity investments at fair value through profit or loss	24	**14,547**	68,214
Convertible note receivable	25	**—**	2,951
Conversion option embedded in convertible note receivable	25	**—**	1
Pledged deposits	26	**1,073**	1,046
Cash and cash equivalents	26	**243,673**	38,286
Total current assets		**933,448**	595,969
CURRENT LIABILITIES			
Bank overdraft, secured	27	**3,222**	2,324
Bank loans, secured	27	**45,125**	45,686
Trade payables	28	**80,438**	39,511
Other payables and accruals	29	**88,457**	41,380
Tax payables		**20,167**	10,256
Obligation under finance leases	30	**284**	—
Strict bonds	27	**128,000**	—
Convertible bonds	31	**20**	—
Promissory notes	32	**218,689**	—
Total current liabilities		**584,402**	139,157
NET CURRENT ASSETS		**349,046**	456,812
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,346,567**	3,001,397

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT LIABILITIES			
Obligation under finance leases	30	**510**	—
Deferred tax liabilities	18	**32,377**	2,969
Strict bonds	27	**210,000**	223,000
Convertible bonds	31	**383,921**	336,494
Promissory notes	32	**125,445**	251,666
Total non-current liabilities		**752,253**	814,129
NET ASSETS		**1,594,314**	2,187,268
EQUITY			
Equity attributable to owners of the Company			
Issued capital	33	**3,166**	2,766
Equity component of convertible bonds	31	**165,150**	169,948
Reserves	34(a)	**1,406,326**	2,003,464
		1,574,642	2,176,178
Shares to be issued		**21,418**	21,418
Non-controlling interests		**(1,746)**	(10,328)
TOTAL EQUITY		**1,594,314**	2,187,268

Kaneko Hiroshi
Director

Li Zhixiong
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Attributable to owners of the Company												
	Share capital *$'000*	Share premium# *$'000*	Contributed surplus# *$'000*	Employee share option reserves# *$'000*	Capital reserves# *$'000*	Equity component of convertible bonds *$'000*	Exchange reserves# *$'000*	Statutory reserve *$'000*	Accumulated losses# *$'000*	Total *$'000*	Shares to be issued *$'000*	Non-controlling interests *$'000*	Total equity *$'000*
At 1 January 2013	2,187	1,423,801	388,084	3,587	(21)	47,503	1,343	–	(215,966)	1,650,518	21,418	(5,200)	1,666,736
Profit/(loss) for the year	–	–	–	–	–	–	–	–	159,296	159,296	–	(5,135)	154,161
Other comprehensive income:	–	–	–	–	–	–	3,510	–	–	3,510	–	7	3,517
Total comprehensive income for the year	–	–	–	–	–	–	3,510	–	159,296	162,806	–	(5,128)	157,678
Issue of convertible bonds	–	–	–	–	–	252,407	–	–	–	252,407	–	–	252,407
Issue of shares upon conversion of convertible bonds	579	239,830	–	–	–	(129,962)	–	–	–	110,447	–	–	110,447
At 31 December 2013	2,766	1,663,631	388,084	3,587	(21)	169,948	4,853	–	(56,670)	2,176,178	21,418	(10,328)	2,187,268
(Loss)/profit for the year	–	–	–	–	–	–	–	–	(864,724)	(864,724)	–	3,609	(861,115)
Other comprehensive expenses	–	–	–	–	–	–	(3,934)	–	–	(3,934)	–	(3)	(3,937)
Total comprehensive expense for the year	–	–	–	–	–	–	(3,934)	–	(864,724)	(868,658)	–	3,606	(865,052)
Issue of consideration shares for the acquisition of subsidiaries	356	238,164	–	–	–	–	–	–	–	238,520	–	–	238,520
Issue of shares upon the conversion of convertible bonds	42	4,858	–	–	–	(4,798)	–	–	–	102	–	–	102
Equity-settled share-options arrangement	–	–	–	27,517	–	–	–	–	–	27,517	–	–	27,517
Issue of shares under share option scheme	2	1,418	–	(450)	–	–	–	–	–	970	–	–	970
Further acquisition of a subsidiary	–	–	–	–	–	–	–	–	13	13	–	(13)	–
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	4,989	4,989
Transfers	–	–	–	–	–	–	–	34,236	(34,236)	–	–	–	–
At 31 December 2014	3,166	1,908,071	388,084	30,654	(21)	165,150	919	34,236	(955,617)	1,574,642	21,418	(1,746)	1,594,314

\# These reserve accounts comprise the consolidated reserves of approximately HK$1,406,326,000 (2013: HK$2,003,464,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	**(707,943)**	225,838
Adjustments for:		
Depreciation of property, plant and equipment	**4,313**	3,637
Amortisation of intangible assets	**25,544**	12,144
Amortisation of lease premiums for land	**3,959**	990
Bank interest income	**(615)**	(174)
Net fair value loss on early redemption of promissory notes	**—**	20,422
Interest on bank loans, overdrafts and others	**3,499**	1,243
Interest on convertible bonds	**57,637**	2,854
Interest on promissory notes	**30,759**	36,450
Interest on strict bonds	**17,034**	2,701
Net fair value loss/(gain) on equity investments at fair value through profit or loss	**31,865**	(41,498)
Loss on disposal of available-for-sale investment	**—**	404
Loss on trading of equity investments at fair value through profit or loss, net	**20,304**	464
Fair value change in other financial assets	**(61,665)**	—
Imputed interest income on convertible note receivable	**(140)**	(279)
Impairment loss on goodwill	**133,548**	33,256
Impairment loss on loan receivables	**2,100**	—
Written off on inventories	**1,598**	—
Impairment loss on trade and bills receivables, net	**85,551**	10,796
Impairment loss on other receivables	**8,979**	905
Impairment loss on exploration and evaluation assets	**733,400**	—
Impairment loss on intangible assets	**9,477**	—
Compensation income from deed of variation	**—**	(46,095)
Equity-settled share based payment	**27,517**	—
Loss on disposal of subsidiaries	**2,325**	—
Gain on disposal of property, plant and equipment	**(6)**	—
	429,040	264,058
Increase in inventories	**(72,039)**	(28,077)
Increase in trade and bills receivables	**(244,718)**	(165,808)
Decrease/(increase) in other receivables, prepayments and deposits	**28,349**	(255,209)
(Increase)/decrease in loan receivables	**(251)**	14,509
Increase in trade payables	**34,735**	26,821
Increase in other payables and accruals	**29,184**	14,374
Cash from/(used in) operations	**204,300**	(129,332)
Profits tax paid	**(107,036)**	(64,836)
Interest paid	**(12,729)**	(5,732)
Net cash flows from/used in operating activities	**84,535**	(199,900)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	615	174
(Increase)/decrease in pledged time deposits with original maturity more than three months	(27)	5,189
Purchases of property, plant and equipment	(759)	(6,939)
Payment of acquisition of equity investments at fair value through profit or loss	(45,473)	(2,816)
Proceeds from disposal of available-for-sale investment	—	186
Proceeds from disposal of equity investments at fair value through profit or loss	50,060	3,411
Proceeds from disposal of property, plant and equipment	470	—
Acquisition of subsidiaries	692	89
Proceeds from disposal of subsidiaries	5	—
Net cash flows from/(used in) investing activities	5,583	(706)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of obligation under finance leases	(573)	—
Repayment of bank loans	(45,686)	—
Proceeds from issues of strict bonds	115,000	223,000
Proceeds from new bank and other loans	45,124	45,686
Proceeds from issues of shares	970	—
Redemption of promissory notes	—	(43,049)
Net cash flows from financing activities	114,835	225,637
NET INCREASE IN CASH AND CASH EQUIVALENTS	204,953	25,031
Cash and cash equivalents at beginning of year	35,962	10,821
Effect of foreign exchange rate change, net	(464)	110
CASH AND CASH EQUIVALENTS AT END OF YEAR	240,451	35,962
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	243,673	38,286
Bank overdrafts, secured	(3,222)	(2,324)
Cash and cash equivalents at stated in the consolidated statement of cash flows	240,451	35,962

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**37**	75
Investments in subsidiaries	14	**1,896,150**	2,399,680
Total non-current assets		**1,896,187**	2,399,755
CURRENT ASSETS			
Amounts due from subsidiaries	14	**288,642**	199,034
Prepayments, deposits and other receivables	23	**25,632**	29,942
Cash and cash equivalents	26	**770**	12,328
Total current assets		**315,044**	241,304
CURRENT LIABILITIES			
Other payables and accruals	29	**26,486**	8,165
Strict bonds	27	**128,000**	—
Convertible bonds	31	**20**	—
Promissory notes	32	**48,048**	—
Total current liabilities		**202,554**	8,165
NET CURRENT ASSETS		**112,490**	233,139
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,008,677**	2,632,894
NON-CURRENT LIABILITIES			
Strict bonds	27	**210,000**	223,000
Convertible bonds	31	**383,921**	336,494
Promissory notes	32	**125,445**	98,653
Total non-current liabilities		**719,366**	658,147
NET ASSETS		**1,289,311**	1,974,747
EQUITY			
Issued capital	33	**3,166**	2,766
Equity component of convertible bonds	31	**165,150**	169,948
Reserves	34(b)	**1,099,577**	1,780,615
		1,267,893	1,953,329
Shares to be issued		**21,418**	21,418
TOTAL EQUITY		**1,289,311**	1,974,747

Kaneko Hiroshi
Director

Li Zhixiong
Director

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

1. CORPORATE INFORMATION

China Household Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda and its registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company's principal place of business is located at Suite No. 1001B, 10/F., Tower 1, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (together the "Group") were principally engaged in trading of wooden products and provision of interior design services, the sales of fabrics and garments and other related accessories, iron and titanium exploration, development and mining in the People's Republic of China ("PRC"), securities investment, fashion business, money lending business and provision of information and technologies services and sales of related products during the year.

These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. In addition, the consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs under the historical cost convention, as modified by the equity investments at fair value through profit or loss; conversion option embedded in convertible note receivable and other financial assets, which are carried at fair value.

The preparation of consolidated financial statements in accordance with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3 to the consolidated financial statements.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current year, the Group has applied the following new or revised HKFRSs issued by the HKICPA.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC)-Int 21	Levies

The application of these new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle[3]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle[5]
HKFRS 9	Financial instruments[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception[5]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[5]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations[5]
HKFRS 15	Revenue from contracts with customers[4]
Amendments to HKAS 1	Disclosure initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[5]
Amendments to HKAS 19	Defined benefit plans: employee contributions[1]
Amendments to HKAS 27	Equity method in separate financial statements[5]

1 Effective for annual periods beginning on or after 1 July 2014.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 July 2014 with limited exceptions.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2016.

The Group is in the process of assessing the impact of these new and revised HKFRSs and does not expect there will be a material impact on the consolidated financial statements of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation *(continued)*

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

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

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

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

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

Business combinations

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

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

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations *(continued)*

The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incompleted by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incompleted. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Acquisition of assets

For the acquisition of assets effected through a non-operating corporate structure that does not constitute a business, it is considered that the transactions do not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. In such cases, the Group shall identify and recognise the individual assets acquired and liabilities assumed. The cost of group of assets shall be allocated to the individual assets and liabilities on the basis of their relative fair value at the date of purchase. Such a transaction or event does not give rise to goodwill.

Goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Goodwill *(continued)*

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Fair value measurement

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

 (i) has control or joint control of the Group;

 (ii) has significant influence over the Group; or

 (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties *(continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(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).

Property, plant and equipment and depreciation

Property, plant and equipment are carried in the statements of financial position at cost less accumulated depreciation and impairment losses.

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "lease premiums for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method, over their estimated useful lives as follows:

— buildings situated on leasehold land are depreciated over the lower of the unexpired term of lease and their estimated useful lives, being no more than 20 years.

— leasehold improvement	over the lease term
— plant and machinery	20%
— furniture, fixtures, and office equipment	20%
— motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation *(continued)*

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation assets are transferred to either mining rights or property, plant and equipment and are amortised or depreciated based on the accounting policy as stated in either "mining rights" or "property, plant and equipment", respectively. Amortisation or depreciation is not charged on costs in respect of areas of interest in the development phase until production. Amortisation or depreciation will be charged over the mine's estimated useful life using the units of production method calculated on the basis of proven and probable reserves. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

Leases

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

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Investments and other financial assets

Classification

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss *(continued)*

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive/negative net changes in fair value presented as other income and gains in the profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other operating expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent is has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significantly, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, bank overdrafts, obligation under finance leases, strict bonds, convertible bonds and promissory notes.

Effective interest method

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

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are 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. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statements of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted-average method and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial positions, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax law) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each of the end of the reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from rendering of services, recognised when the services are rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(d) securities trading, when the significant risks and rewards of ownership have been transferred to the buyer; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Share-based payment

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment, or is otherwise beneficial to the employees as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Share-based payment *(continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., 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. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that any entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on the translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of at the exchange rates prevailing at the end of the reporting period and, their statements of profit or loss and other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recogrisied as an other comprehensive income or expenditure and included in a separate component of the exchange reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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 described below.

Impairment of trade and loan receivables

The Group reviews its loan portfolios to assess whether there is any objective evidence that a trade or loan receivable is impaired at least on a yearly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of trade and loan receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methods and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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3. SIGNIFICANT ACCOUNTING ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

Impairment of non-financial assets (other than goodwill and intangible assets)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or a cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of exploration and evaluation assets

The Group assesses whether there are any indicators of impairment of exploration and evaluation assets at the end of each reporting period. Exploration and evaluation assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of exploration and evaluation assets exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value in use. The recoverable amount of the exploration and evaluation assets have been determined based on value in use calculation. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the exploration and evaluation assets and a suitable discount rate in order to calculate the present value. The management refers to the valuation performed by the independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions. This estimate and assumption made by management on the future operation of the business, pre-tax discount rate, and other assumptions underlying the value in use calculations.

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors 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.

Valuation of intangible assets and useful lives

The Group has made estimations and assumptions in relation to the potential future cash flows of identifiable intangible assets acquired as part of business combinations. This assessment involves estimations and assumptions relating to potential future revenues, appropriate discount rates and the useful lives of such assets. These estimations and assumptions impact the profit or loss over the useful life of the intangible asset.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

Valuation of other financial assets

As part of the identifiable asset acquired in business combinations as set out in note 36 of the consolidated financial statements, profit guarantee is valued at fair value at the acquisition date with the best estimates of the future outcome of the future events. Where the profit guarantee meets the definition of a financial asset, it is subsequently re-measured to fair value at the end of each reporting period. The determination of the fair value is based on the expected adjustment on consideration paid. The key assumptions take into consideration the probability of meeting each profit target.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has six (2013: six) reportable operating segments as follows:

(a) the sales of household furnitures segment is trading of household furnitures and wooden products;

(b) the sales of fabrics, garments and accessories segment is trading of the fabrics, garments and other related accessories;

(c) the mining segment is exploration, development and mining of iron and titanium ores;

(d) the securities segment is trading of securities;

(e) the information and technologies services segment is the provision of information and technologies services and sales of related products; and

(f) other comprises of the money lending segment and the fashion segment. The money lending segment is the provision of loan financing and the fashion segment is the provision of design and related services and sales of designers products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, equity investments at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude bank overdrafts, strict bonds, convertible bonds, promissory notes, deferred tax liabilities, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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4. SEGMENT INFORMATION *(CONTINUED)*

	Year ended 31 December 2014						
	Sales of household furniture *HK$'000*	Sales of fabrics and garment trading *HK$'000*	Mining *HK$'000*	Securities *HK$'000*	Information and technologies services *HK$'000*	Other *HK$'000*	Total *HK$'000*
Segment revenue							
Sales to external customers	1,577,073	6,824	—	64,656	12,982	558	1,662,093
Segment results	288,361	(6,557)	(3,339)	(53,087)	(9,246)	(8,135)	207,997
Reconciliation:							
Unallocated gains							178
Corporate and other unallocated expenses							(807,189)
Finance costs							(108,929)
Loss before tax							(707,943)
Segment assets	1,926,679	8,318	808,141	11,615	145,626	553	2,900,932
Reconciliation:							
Unallocated assets							30,037
Total assets							2,930,969
Segment liabilities	194,068	13,056	56	—	4,530	3,580	215,290
Reconciliation:							
Unallocated liabilities							1,121,365
Total liabilities							1,336,655
Other segment information							
Capital expenditure*	136,294	666	9	—	11	—	136,980
Reconciliation:							
Unallocated capital expenditure							645
							137,625
Depreciation and amortisation	7,316	291	12	—	8,400	674	16,693
Reconciliation:							
Unallocated depreciation and amortisation							17,123
							33,816
Impairment loss on trade and bills receivables	93,333	—	—	—	2,859	—	96,192

* Capital expenditure consists of additions to property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries.

4. SEGMENT INFORMATION *(CONTINUED)*

	Year ended 31 December 2013						
	Sales of household furnitures *HK$'000*	Sales of fabrics and garment trading *HK$'000*	Mining *HK$'000*	Securities *HK$'000*	Information and technology services *HK$'000*	Other *HK$'000*	Total *HK$'000*
Segment revenue							
Sales to external customers	922,361	4,309	—	3,204	9,979	3,604	943,457
Segment results	210,916	(9,369)	(3,149)	42,271	4,862	(5,749)	239,782
Reconciliation:							
Interest income and unallocated gains							51,383
Corporate and other unallocated expenses							(22,079)
Finance costs							(43,248)
Profit before tax							225,838
Segment assets	451,399	8,786	1,542,536	67,147	13,479	6,389	2,089,736
Reconciliation:							
Unallocated assets							1,050,818
Total assets							3,140,554
Segment liabilities	95,478	7,664	55	—	2,123	5,732	111,052
Reconciliation:							
Unallocated liabilities							842,234
Total liabilities							953,286
Other segment information							
Capital expenditure*	19,674	1,742	15	—	—	776	22,207
Reconciliation:							
Unallocated capital expenditure							144,542
							166,749
Depreciation and amortisation	1,444	262	9	—	8,401	1,561	11,677
Reconciliation:							
Unallocated depreciation and amortisation							5,094
							16,771
Impairment loss on trade and bills receivables	10,641	—	—	—	155	—	10,796

* Capital expenditure consists of additions to property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries.

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4. SEGMENT INFORMATION *(CONTINUED)*

Geographical information

	For the year ended 31 December 2014					
	Hong Kong HK$'000	United States HK$'000	The PRC HK$'000	Italy HK$'000	Other HK$'000	Total HK$'000
Revenue						
Sales to external customers	**65,556**	**—**	**1,590,331**	**6,206**	**—**	**1,662,093**
Segment assets	**743,332**	**—**	**2,187,637**	**—**	**—**	**2,930,969**
Capital expenditure*	**1,311**	**—**	**136,314**	**—**	**—**	**137,625**

	For the year ended 31 December 2013					
	Hong Kong HK$'000	United States HK$'000	The PRC HK$'000	Italy HK$'000	Other HK$'000	Total HK$'000
Revenue						
Sales to external customers	8,791	—	930,357	4,309	—	943,457
Segment assets	472,107	120	2,668,087	—	240	3,140,554
Capital expenditure*	3,979	—	162,770	—	—	166,749

Revenue from major customers was derived from the sales of household furnitures segment in 2014 and 2013 respectively, detailed information was summarised as follows:

Customers	**2014** *HK$'000*	2013 *HK$'000*
A	**209,580**	154,917
B	**122,064**	274,181
C	**56,251**	104,976
Total	**387,895**	534,074

* Capital expenditure consists of additions to property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries.

5. REVENUE, OTHER INCOME AND OTHER LOSSES

Revenue, which is also the Group's turnover, represents the net invoiced value of i) sales of household furnitures; ii) sales of fabrics, garments and other related accessories, after allowances for returns and trade discounts; iii) trading of securities; iv) dividend income, v) interest income from loan financing, vi) provision of information and technologies services and sales of related products. During the year, the Group did not generate any income from the mining business.

An analysis of revenue, other income and other losses of the Group is as follows:

	2014	2013
	HK$'000	*HK$'000*
Revenue		
Sales of goods	**1,596,596**	928,121
Provision of services	**363**	9,983
Interest income from loan receivables	**166**	1,937
Sales of listed equity investments	**64,656**	3,204
Dividend income from listed equity investments	**312**	212
	1,662,093	943,457
Other income		
Bank interest income	**615**	174
Imputed interest income on convertible note receivable	**140**	279
Commission income	**333**	990
Compensation income from deed of variation	**—**	46,095
Others	**7,636**	5,734
	8,724	53,272
Other losses		
Written off on inventories	**(1,598)**	—
Impairment loss on loan receivables	**(2,100)**	—
Impairment loss on exploration and evaluation assets	**(733,400)**	—
Impairment loss on other receivables	**(8,979)**	—
Impairment loss on intangible assets	**(9,477)**	—
Impairment loss on goodwill	**(133,548)**	(33,256)
Net fair value (loss)/gain on equity investments at fair value through profit or loss	**(31,865)**	41,498
Net fair value loss on early redemption promissory notes	**—**	(20,422)
Net fair value gain on other financial assets	**61,665**	—
Loss on disposal of available-for-sales investment	**—**	(404)
Loss on disposal of subsidiaries	**(2,325)**	—
Exchange (loss)/gain, net	**(59)**	269
Others	**(14)**	—
	(861,700)	(12,315)

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6. FINANCE COSTS

An analysis of finance costs of the Group is as follows:

	2014 *HK$'000*	2013 *HK$'000*
Interest on bank loans and overdrafts	**3,479**	1,181
Interest on strict bonds	**17,034**	2,701
Interest on convertible bonds	**57,637**	2,854
Interest on promissory notes	**30,759**	36,450
Others	**20**	62
	108,929	43,248

7. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived after charging:

	2014 *HK$'000*	2013 *HK$'000*
Staff costs (excluding directors' remunerations)		
Salaries and allowances	**24,033**	17,075
Retirement benefit costs	**838**	696
Equity-settled share based payment	**16,354**	—
Total staff costs (excluding directors' remunerations)	**41,225**	17,771
Cost of inventories sold	**1,155,155**	605,906
Cost of services provided	**26**	797
Depreciation of property, plant and equipment		
— Owned assets	**3,932**	3,637
— Assets held under finance leases	**381**	—
Directors' remuneration	**9,696**	3,875
Auditors' remuneration	**950**	650
Amortisation of intangible assets	**25,544**	12,144
Amortisation of lease premiums for land	**3,959**	990
Minimum lease payments under operating leases		
— land and buildings	**6,414**	6,677
Impairment loss on trade and bills receivables, net	**85,551**	10,796
Equity-settled share based payment		
Directors	**6,215**	—
Employees	**16,354**	—
Consultants	**4,948**	—
Total equity-settled share based payment	**27,517**	—

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the predecessor Hong Kong Companies Ordinance, is as follows:

	2014 ***HK$'000***	2013 *HK$'000*
Fees	**762**	714
Other emoluments:		
Salaries, allowances and benefits in kind	**2,620**	3,033
Equity-settled share options expenses	**6,215**	—
Retirement benefit costs	**99**	128
	8,934	3,161
	9,696	3,875

The emoluments paid or payable to each of the directors of the Company during the year are as follows:

For the year ended 31 December 2014

Name of directors	*Notes*	**Fees** ***HK$'000***	**Salary, allowances, and benefits in kind** ***HK$'000***	**Retirement benefit costs** ***HK$'000***	**Equity-settled share options expenses** ***HK$'000***	**Total** ***HK$'000***
Executive directors						
Kaneko Hiroshi	*a*	—	677	12	1,035	1,724
Fu Zhenjun		—	221	20	2,590	2,831
Kuang Yuanwei	*m*	—	424	35	2,590	3,049
Li Zhixiong	*n*	—	650	19	—	669
Wong Man Pan	*b*	—	220	5	—	225
		—	2,192	91	6,215	8,498
Non-executive directors						
Xie Jianming	*f*	150	—	—	—	150
Zhu Qi	*g*	150	—	—	—	150
Yiu Kwok Ming, Tommy	*e*	—	428	8	—	436
		300	428	8	—	736
Independent non-executive directors						
Kaneko Hiroshi	*a*	42	—	—	—	42
To Yan Ming, Edmond		120	—	—	—	120
Loke Yu	*k*	150	—	—	—	150
Lin Xuebin	*l*	150	—	—	—	150
		462	—	—	—	462
		762	2,620	99	6,215	9,696

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8. DIRECTORS' REMUNERATION *(CONTINUED)*

For the year ended 31 December 2013

Name of directors	*Notes*	Fees *HK$'000*	Salary, allowances and benefits in kind *HK$'000*	Retirement benefit costs *HK$'000*	Equity-settled share options expenses *HK$'000*	Total *HK$'000*
Executive directors						
Wong Man Pan	*b*	—	670	15	—	685
Tsang King Sun	*c*	—	543	13	—	556
Fu Zhenjun		—	208	18	—	226
Tsui Kwok Yin, Czarina	*d*	—	207	9	—	216
Kuang Yuanwei	*m*	—	405	28	—	433
Li Zhixiong	*n*	—	72	—	—	72
Total		—	2,105	83	—	2,188
Non-executive directors						
Yiu Kwok Ming, Tommy	*e*	—	928	45	—	973
Xie Jianming	*f*	93	—	—	—	93
Zhu Qi	*g*	93	—	—	—	93
		186	928	45	—	1,159
Total		186	3,033	128	—	3,347
Independent non-executive directors						
Liang Jin An	*h*	50	—	—	—	50
Ng Lok Kei	*i*	60	—	—	—	60
Chan Hon Yuen	*j*	60	—	—	—	60
To Yan Ming, Edmond		120	—	—	—	120
Kaneko Hiroshi	*a*	120	—	—	—	120
Loke Yu	*k*	59	—	—	—	59
Lin Xuebin	*l*	59	—	—	—	59
		528	—	—	—	528
Total		714	3,033	128	—	3,875

8. DIRECTORS' REMUNERATION *(CONTINUED)*

Notes:

(a) Dr. Kaneko Hiroshi was re-designated from an independent non-executive director to an executive director and chief executive officer with effect from 7 May 2014.

(b) Mr. Wong Man Pan was appointed as Chairman on 1 February 2013 and resigned on 30 April 2014.

(c) Mr. Tsang King Sun resigned as executive director of the Company with effect from 22 November 2013.

(d) Ms. Tsui Kwok Yin, Czarina retired as executive director with effect from 28 June 2013.

(e) Mr. Yiu Kwok Ming, Tommy resigned as non-executive director of the Company with effect from 30 June 2014.

(f) Mr. Xie Jianming was appointed as non-executive director with effect from 20 May 2013.

(g) Mr. Zhu Qi was appointed as non-executive director with effect from 20 May 2013.

(h) Mr. Liang Jin An retired as independent non-executive director with effect from 28 June 2013.

(i) Mr. Ng Lok Kei retired as independent non-executive director with effect from 28 June 2013.

(j) Mr. Chan Hon Yuen resigned as independent non-executive director with effect from 28 June 2013.

(k) Dr. Loke Yu was appointed as independent non-executive director with effect from 9 August 2013.

(l) Mr. Lin Xuebin was appointed as independent non-executive director with effect from 9 August 2013.

(m) Mr. Kuang Yuanwei was appointed as executive director of the Company with effect from 1 February 2013.

(n) Mr. Li Zhixiong was appointed as executive director of the Company with effect from 18 November 2013.

During the year, there were no other emoluments payables to the independent non-executive directors (2013: Nil).

There was no remuneration paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2013: Nil). There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2013: Nil).

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8. DIRECTORS' REMUNERATION *(CONTINUED)*

Five highest paid employees

The five individuals whose remuneration were the highest in the Group included three (2013: one) executive director and Nil (2013: one) non-executive director. Details of the remuneration of the remaining two (2013: three) highest paid employees during the year are as follows:

	2014 HK$'000	2013 HK$'000
Salaries, allowances	1,989	2,583
Retirement benefits costs	65	77
Equity-settled share options expenses	—	—
	2,054	2,660

The members of non-director, highest paid employees whose remuneration fell within the following bands are as follows:

	2014 Number	2013 Number
Nil — HK$1,000,000	1	2
HK$1,000,001 — HK$1,500,000	1	1
	2	3

9. INCOME TAX EXPENSE

The major components of income tax expense of the Group for the year are as follows:

	Notes	2014 HK$'000	2013 HK$'000
Current tax			
— Hong Kong	(a)	1,961	1,682
— PRC	(b)	115,055	69,701
Under provision in respect of previous years	(c)	41	1,188
		117,057	72,571
Deferred tax		36,115	(894)
		153,172	71,677

(a) Hong Kong profit tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

9. INCOME TAX EXPENSE *(CONTINUED)*

(b) Under the Enterprise Income Tax Law of the People's Republic of China (the "PRC"), the enterprise income tax rate applicable to the Group's companies operating in the PRC is 25% from 1 January 2008 onwards.

(c) An under-provision for income tax in Hong Kong and the PRC were approximately HK$Nil and HK$41,000 (2013: HK$718,000 and HK$470,000) respectively.

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rate for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	2014 *HK$'000*	2013 *HK$'000*
(Loss)/profit before tax	**(707,943)**	225,838
Tax (credit)/charge at the statutory tax rate of 16.5%	**(116,810)**	37,263
Tax effect of expenses not deductible	**180,368**	19,192
Tax effect of income not taxable	**(15,140)**	(14,671)
Difference tax rates under different jurisdiction	**51,266**	20,461
Tax effect of temporary difference on depreciable assets not recognised	**339**	386
Tax losses utilised from previous years	**—**	(1,308)
Tax losses not recognised	**16,993**	10,060
Underprovision in the previous year	**41**	1,188
Tax expense at effective tax rate	**117,057**	72,571

As at 31 December 2014, the Group has had losses of approximately HK$153,000,000 (2013: HK$50,000,000) available to offset future profits. No deferred tax asset has been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which losses can be utilised. Except for tax losses of approximately HK$5,252,000 (2013: HK$2,000,000) arising in the PRC that are available for offsetting against the taxable profits of the subsidiaries, the tax losses of approximately HK$147,748,000 (2013: HK$48,000,000) arising in Hong Kong may be carried forward indefinitely. The effect of temporary differences on depreciable assets is not material.

10. LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2014 includes a loss of HK$952,545,000 (2013: HK$45,266,000) which has been dealt with in the financial statements of the Company (note 34(b)).

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11. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of basic and diluted (loss)/earnings per share are based on

	2014 HK$'000	2013 HK$'000
(Loss)/profit		
(Loss)/profit attributable to ordinary equity holders of the Company	(864,724)	159,296
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds (net of income tax)	—	3,021
(Loss)/profit for the purpose of diluted (loss)/earnings per share	(864,724)	162,317

	Number of shares	
	2014 '000	2013 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	2,947,963	2,467,015
Effect of dilutive potential ordinary shares:		
Convertible bonds	—	216,674
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	2,947,963	2,683,689

The calculation of diluted (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest expenses on convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2014 in respect of a dilution as the share options and convertible bonds outstanding had an anti-dilutive effect on basic loss per share amounts presented.

No adjustment has been made to the diluted earnings per share for share options due to the exercise price of the share options was higher than the average market price for shares in 2013.

12. PROPERTY, PLANT AND EQUIPMENT

Group:

	Building HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 January 2013	—	1,849	—	2,260	360	4,469
Additions	24,324	3,213	—	1,729	1,997	31,263
Additions through acquisition of subsidiaries	—	107	—	1,475	300	1,882
Exchange realignment	—	18	—	70	22	110
At 31 December 2013 and 1 January 2014	24,324	5,187	—	5,534	2,679	37,724
Additions	—	420	4	335	1,367	2,126
Additions through acquisition of subsidiaries	—	—	1,491	8	—	1,499
Disposals	—	(1,849)	—	(835)	(562)	(3,246)
Exchange realignment	—	(23)	2	(47)	(17)	(85)
At 31 December 2014	24,324	3,735	1,497	4,995	3,467	38,018
Accumulated Depreciation:						
At 1 January 2013	—	69	—	590	360	1,019
Charged for the year	203	2,002	—	1,114	318	3,637
Exchange realignment	—	3	—	8	2	13
At 31 December 2013 and 1 January 2014	203	2,074	—	1,712	680	4,669
Charged for the year	811	1,523	178	1,231	570	4,313
Written back on disposal	—	(1,850)	—	(438)	(249)	(2,537)
Exchange realignment	—	(5)	—	(16)	(2)	(23)
As at 31 December 2014	1,014	1,742	178	2,489	999	6,422
Net carrying amount:						
As at 31 December 2014	23,310	1,993	1,319	2,506	2,468	31,596
As at 31 December 2013	24,121	3,113	—	3,822	1,999	33,055

The net carrying amounts of the Group's property, plant and equipment held under finance leases included in the total amounts of motor vehicles at 31 December 2014 amounted to HK$1,169,247 (2013: HK$Nil).

12. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Company:

	Leasehold improvement *HK$'000*	Furntiure, fixtures and office equipment *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2013 and 31 December 2013	266	247	513
Additions	—	14	14
At 31 December 2014	266	261	527
Accumulated depreciation:			
At 1 January 2013	266	123	389
Charged for the year	—	49	49
At 31 December 2013 and 1 January 2014	266	172	438
Charged for the year	—	52	52
At 31 December 2014	266	224	490
Net carrying value:			
At 31 December 2014	—	37	37
At 31 December 2013	—	75	75

13. LEASE PREMIUMS FOR LAND

	Group	
	2014	2013
	HK$'000	*HK$'000*
Carrying amount at 1 January	**117,767**	—
Acquisition of subsidiaries	**—**	118,757
Amortisation	**(3,959)**	(990)
Carrying amount at 31 December	**113,808**	117,767
Classified as current assets	**3,959**	3,959
Non-current assets	**109,849**	113,808

The leasehold lands are held under medium-term lease and are situated in the PRC.

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	HK$'000	*HK$'000*
Unlisted share, at cost	**1,680,000**	1,680,000
Less: Impairment	**(874,400)**	(160,829)
	805,600	1,519,171
Amounts due from subsidiaries	**1,450,216**	1,090,000
Less: Impairment	**(71,024)**	(10,457)
	1,379,192	1,079,543
	2,184,792	2,598,714
Classified as current assets — amounts due from subsidiaries	**(288,642)**	(199,034)
Non-current assets	**1,896,150**	2,399,680

The amounts due from subsidiaries, which are classified as non-current assets, are unsecured, interest-free and in substance represent the Company's investment in subsidiaries in form of quasi-equity loans.

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

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14. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Target Rich Investment Limited	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	—	Investment holding
Greater China Mining Resources Limited	BVI/PRC	US$100	100%	—	Investment holding
Excel Growth Investments Limited	BVI/Hong Kong	US$1	100%	—	Investment holding
Victory Chain Investment Limited	BVI/Hong Kong	US$1	100%	—	Security investment
South Field (Pacific) Limited	Hong Kong	HK$1,000,101	—	56%	Sale of garments and accessories
Glamour International Limited	Samoa/Hong Kong	US$3	—	100%	Investment holding
Alpha Textile International Limited	Hong Kong	HK$10,000	—	65%	Sale of fabrics
Ching Hing (Holdings) Investment Limited	Hong Kong	HK$10,000	—	100%	Investment holding
Calvin Textiles Limited	Hong Kong	HK$10,000	—	100%	Merchandising services
Mark Joy International Limited	Hong Kong	HK$10	—	56%	Investment holding
Greater China Mining Resources Limited	Hong Kong/The PRC	HK$1	—	100%	Investment holding
陝西泰升達礦業有限公司 (Shannxi Tai Sheng Da Mining Company Limited)*#@	The PRC	Registered capital: RMB30,000,000	—	95%	Mining exploration
Ocean Yield International Limited	Hong Kong	HK$1	—	100%	Money lending
Aile Company Limited	Hong Kong	HK$1	—	100%	Provision of design and related services and sales of designers' products

14. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
深圳市泓訊電子科技有限公司 (Shenzhen City Hong Xun Electronic and Technology Company Limited)*#^	The PRC	Registered capital: RMB5,000,000	—	100%	Provision of information and technologies services and sales of related products
m3 Technology Development Limited	Hong Kong	HK$1,000	—	100%	Provision of information and technologies services and sales of related products
中山市普納度風尚家居有限公司 (Zhongshan City Prado Style Household Company Limited)*#^	The PRC	Registered capital: USD25,000,000	—	100%	Trading of wooden furnishing products
中山市維訊家居用品有限公司 (Zhongshan City Wei Xin Household Company Limited)*#^	The PRC	Registered capital: USD3,000,000	—	100%	Provision of virtual interior design simulation and electronic trading platform for selling household products
中山市維美家木制品有限公司 (Zhongshan City Kassade Wood Production Limited)*#^	The PRC	Registered capital: USD2,100,000	—	100%	Manufacturing of floor tiles, various wood frames and other household wood products
中山市極地陽光智能家居有限公司 (Zhongshan City Polar Sunshine Company Limited)*#^	The PRC	Registered capital: USD2,100,000	—	100%	Trading of heating wooden household products and other basic materials for heating wooden household products

* Elite Partners CPA Limited were not the statutory auditors.
\# The English names of these subsidiaries are directly translated from their Chinese names as no English names have been registered.
^ This subsidiary is registered as a wholly-foreign-owned enterprise under the PRC Law.
@ This subsidiary is registered as sino-foreign investment enterprise under the PRC Law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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14. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

The details of non-wholly owned subsidiaries of the Group that have material non-controlling interests as at 31 December 2014 and 2013 are set out below:

Name of indirect subsidiaries	Place of incorporation and principal activities	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(Loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2014	2013	**2014** **HK$'000**	2013 HK$'000	**2014** **HK$'000**	2013 HK$'000
Greater China Mining Resources Limited	BVI/Mining	**5%**	5%	**(147)**	(173)	**(1,005)**	(1,155)
Target Rich Investment Limited	BVI/Garment	**35%-42%**	35%-42%	**3,733**	(3,704)	**2,751**	6,470
Blue Champion Limited	BVI/Garment	**N/A**	37%	**23**	(1,258)	**—**	5,013

The above information is based on Greater China Mining Resources Limited, Target Rich Investment Limited, Blue Champion Limited and their subsidiaries.

15. EXPLORATION AND EVALUATION ASSETS

	Group	
	2014 **HK$'000**	2013 HK$'000
At 1 January, at cost	**1,539,000**	1,539,000
Impairment loss for the year	**(733,400)**	—
At 31 December	**805,600**	1,539,000

In 2010, the Group has obtained a mining license of 陝西省紫陽縣桃園 — 大柞木溝鈦磁鐵礦 (literally translated as Shannxi Province Ziyang County Taoyuan – Dazhamugou Taicitie Mine, the "Mine"), an iron and titanium dioxide mine with a total mining area of 7.8892 km^2 located at Ziyang County, Shannxi Province, the PRC. However, the Group has to obtain other approvals and licenses to commence/continue the operations on the Mine. As advised by the Company's legal advisors, the directors are of opinion that the mining license is renewable for 5 more years each time and the Group did not have any legal impediment for such renewal.

The exploration and evaluation assets are stated at cost less impairment losses. When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to property, plant and equipment and amortised on the units of production method (the "UOP") based on the proven and probable reserves.

During the year ended 31 December 2014, the Group has not incurred any cost in relation to topography survey and feasibility study and which was capitalised as exploration and evaluation asset. The Group has not carried out any development nor production activity during the year. None of the exploration and evaluation costs were transferred to the property, plant and equipment as the directors of the Company are of the opinion that the exploration properties were not capable of commercial production at the end of the reporting year.

15. EXPLORATION AND EVALUATION ASSETS *(CONTINUED)*

The net cash outflows arising from the Mine are as follows:

	2014	2013
	HK$'000	*HK$'000*
Operating activities	**(2,893)**	(2,144)
Investing activities	**(8)**	(17)
	(2,901)	(2,161)

As at 31 December 2014, the directors of the Group conducted an impairment review on the exploration and evaluation assets located in Shannxi Province of the PRC due to continuing decline in market prices of iron and titanium dioxide ores across the globe. The management considered the fact that the project is still under development and will not be put into commercial run till 2017. The directors of the Group will continue to monitor the developments of the exploration and evaluation assets and assess its impairment on an on-going basis based on the latest market environment. The Group determined the recoverable amounts of cash-generating unit ("CGU") for the Mine based on value in use calculation. The calculation used cash flows projections based on financial budgets as approved by management covering a period which is determined by the mineral resources of the Mine, and discount rate of 15.86% (2013: 20.28%) for the Mine with reference to the valuation performed by Roma Appraisals Limited as at 31 December 2014. The fair value of the exploration and evaluation assets as at 31 December 2014 was about HK$805,600,000. As the recoverable amount of the CGU of the Mine was below the carrying amount, an impairment loss of approximately HK$733,400,000 has been recognised to profit or loss and included in other losses in the consolidated statement of profit or loss respectively.

16. INTANGIBLE ASSETS

Group	**Customer Relationship**	**Other intangible assets**	**Computer software**	**Technology know how**	**Total**
	Note a	*Note b*	*Note c*	*Note d*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1 January 2013	—	41,876	4,000	—	45,876
Acquisition of subsidaries	14,846	—	—	—	14,846
At 31 December 2013	14,846	41,876	4,000	—	60,722
Acquisition of subsidiaries	—	—	—	134,000	134,000
At 31 December 2014	14,846	41,876	4,000	134,000	194,722

16. INTANGIBLE ASSETS *(CONTINUED)*

Group	**Customer relationship** *Note a* *HK$'000*	**Other intangible assets** *Note b* *HK$'000*	**Computer software** *Note c* *HK$'000*	**Technical know how** *Note d* *HK$'000*	**Total** *HK$'000*
Accumulated impairment and amortisation:					
At 1 January 2013	—	2,649	1,000	—	3,649
Charged for the year	2,969	8,375	800	—	12,144
At 31 December 2013	2,969	11,024	1,800	—	15,793
Charged for the year	2,969	8,375	800	13,400	25,544
Impairment loss for the year	—	9,477	—	—	9,477
At 31 December 2014	5,938	28,876	2,600	13,400	50,814
Net carrying value:					
At 31 December 2014	8,908	13,000	1,400	120,600	143,908
At 31 December 2013	11,877	30,852	2,200	—	44,929

Note:

(a) Customer relationship represents the top three major wholesales customers in Chang Ye Group which were acquired through business combination on 3 January 2013. The useful life of customer relationship is 5 years.

(b) Other intangible assets, which were acquired through business combination, represent (i) trademark for ConnecTouch; (ii) three software copyrights of its software with the National Copyright Administration of the PRC; (iii) a patent for invention rights; and (iv) the development costs of certain application softwares for related industry. The useful life of other intangible assets is 5 years.

During the year ended 31 December 2014, an impairment loss of approximately HK$9,477,000 (2013: Nil) was recognised to write down the carrying amount of the trademark for ConnecTouch, copyrights and patent to their recoverable amount.

(c) Computer software , which was acquired from an independent third party during the year ended 31 December 2011, is used for developing database of customer list in the fashion business segment. The useful life of computer software is 5 years.

(d) Technical know how, which was acquired through business combination on 17 July 2014 represent the far infrared heating technology involved in producing the heating wooden household products. The useful life of the technical know how is 5 years.

17. OTHER FINANCIAL ASSETS

	2014 *HK$'000*	2013 *HK$'000*
Profit guarantee, at fair value	**253,919**	185,184

17. OTHER FINANCIAL ASSETS *(CONTINUED)*

The fair value of other financial assets represented the profit guarantee arising from the acquisition of i) Red Hero International Limited ("Red Hero"), together with its subsidiaries, collectively the ("Red Hero Group") , ii) Chang Ye Holdings Limited ("Chang Ye"), together with its subsidiaries, collectively the ("Chang Ye Group"), iii) Kassade Investment Limited ("Kassade"), together with its subsidiaries, collectively the ("Kassade Group") and iv) Polar Sunshine Wood Holdings Company Limited ("Polar Sunshine"), together with its subsidiaries, collectively the ("Polar Sunshine Group") respectively.

(a) On 3 January 2013, the Group acquired the 100% equity interest of Chang Ye Group. The total consideration was satisfied by way of the issue of a promissory note with principal value of HK$60,000,000, subject to the adjustment of the amount of profit guarantee for the relevant profit guaranteed period.

Pursuant to the sales and purchase agreement, the profit guarantee for Chang Ye Group's total net profit after tax of the years ended/ending 31 December 2013, 2014 and 2015 shall not be less than HK$15,000,000 each year. In the event of guaranteed profit is not met, the shortfall amount will set off against the principal amount of promissory note with a cap of HK$15,000,000 each year.

The after-tax net profit of Chang Ye Group for the financial year ended 31 December 2014 amounted to approximately HK$212,215,000 (2013: HK$194,006,000). Accordingly the profit guarantee for the financial year ended 31 December 2013 and 2014 were satisfied.

On 31 December 2014, the fair value of profit guarantee of Chang Ye Group was HK$Nil (2013: HK$Nil).

(b) On 31 December 2013, the Group acquired 100% equity interest of Red Hero Group. The total consideration was satisfied by way of the issue of convertible bond with an aggregate nominal value of HK$480,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit guaranteed period.

Pursuant to the sales and purchase agreement, the profit guarantee for Red Hero Group's total net profit after tax of the years ended/ending 31 December 2014, 2015 and 2016 shall not be less than HK$2,600,000 and HK$76,000,000 and HK$162,000,000 respectively. In the event of guaranteed profit is not met, the shortfall amount will set off against the principal amount of convertible bond.

The after-tax net profit of Red Hero Group for the financial year ended 31 December 2014 amounted to approximately HK$17,176,000. Accordingly, the profit guarantee for the financial year ended 31 December 2014 was satisfied.

On 31 December 2014, the fair value of profit guarantee of Red Hero Group was HK$250,757,000 (2013: HK$185,184,000).

(c) On 11 July 2014, the Group acquired 100% equity interest of Kassade Group. The total consideration was satisfied by way of the issue of a promissory note with principal value of HK$100,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit guaranteed period.

Pursuant to the sales and purchase agreement, the profit guarantee for Kassade Group's total net profit after tax of the years ended/ending 31 December 2014, 2015, 2016, 2017 and 2018 shall not be less than HK$20,000,000 each year. In the event of guaranteed profit is not met, the shortfall amount will set off against the principal amount of promissory note.

The after-tax net profit of Kassade Group for the financial year ended 31 December 2014 amounted to approximately HK$21,084,000. Accordingly, the profit guarantee for the financial year ended 31 December 2014 was satisfied.

On 31 December 2014, the fair value of profit guarantee of Kassade Group was HK$3,162,000.

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17. OTHER FINANCIAL ASSETS *(CONTINUED)*

(d) On 17 July 2014, the Group acquired 100% equity interest of Polar Sunshine Group. The total consideration was satisfied by way of the issue of 356,000,000 consideration shares at the issue price of HK$0.59 subject to the adjustment of the amount of profit guarantee for the relevant profit guaranteed period.

Pursuant to the sales and purchase agreement, the profit guarantee for Polar Sunshine Group's total net profit after tax of the years ended/ending 31 December 2014, 2015 and 2016 shall not be less than HK$7,500,000, HK$12,000,000 and HK$27,000,000 respectively. In the event of guaranteed profit is not met, the shortfall amount will be paid by cash to Kingstown Development Limited, a wholly-owned subsidiary of the Company.

The after-tax net profit of Polar Sunshine Group for the financial year ended 31 December 2014 amounted to approximately HK$7,600,000. Accordingly the profit guarantee for the financial year ended 31 December 2014 was satisfied.

On 31 December 2014, the fair value of profit guarantee of Polar Sunshine Group was HK$Nil.

The fair value of the other financial assets as at 31 December 2013 and 2014 are based on valuation performed by Roma Appraisals Limited, by using a probabilistic model.

18. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the year are as follows:

Group

	Deductible temporary differences *HK$'000*	**Deferred revenue** *HK$'000*	**Intangible assets** *HK$'000*	**Total** *HK$'000*
At 1 January 2013	40,207	(152)	—	40,055
Acquisition of subsidiaries	—	—	(3,711)	(3,711)
Credited to the consolidated statement of profit or loss during the year	—	152	742	894
At 31 December 2013 and 1 January 2014	40,207	—	(2,969)	37,238
Acquisition of subsidiaries	—	—	(33,500)	(33,500)
(Debited)/credited to the consolidated statement of profit or loss during the year	(40,207)	—	4,092	(36,115)
At 31 December 2014	—	—	(32,377)	(32,377)

18. DEFERRED TAX *(CONTINUED)*

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 they relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	2014 **HK$'000**	2013 *HK$'000*
Deferred tax assets	—	40,207
Deferred tax liabilities	**(32,377)**	(2,969)
	(32,377)	37,238

19. GOODWILL

	The Group *HK$'000*
Cost:	
At 1 January 2013	290,778
Acquisition of subsidiaries	330,757
At 31 December 2013 and 1 January 2014	621,535
Acquisition of subsidiaries	197,918
At 31 December 2014	819,453
Accumulated impairment:	
At 1 January 2013	—
Impairment loss for the year	33,256
At 31 December 2013 and 1 January 2014	33,256
Impairment loss for the year	133,548
At 31 December 2014	166,804
Net carrying value:	
At 31 December 2014	**652,649**
At 31 December 2013	588,279

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segment as follows:

	Notes	**2014** **HK$'000**	2013 *HK$'000*
Sales of wooden furnishing products	*(i)*	**528,675**	330,757
Information and technology services	*(ii)*	**123,974**	257,522
		652,649	588,279

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19. GOODWILL *(CONTINUED)*

(i) Sales of wooden furnishing products

During the year ended 31 December 2014, the Group acquired entire issued share capital of Kassade Group and Polar Sunshine Group. The Group recognised goodwill of approximately HK$59,869,000 and HK$138,049,000 respectively upon the completion of the acquisitions. Such goodwill has been allocated to the business segment of household furniture since the acquisitions.

During the year ended 31 December 2013, the Group acquired entire issued share capital of Chang Ye Group and Red Hero Group. The Group recognised the goodwill of approximately HK$35,931,000 and HK$294,826,000, respectively upon the completion of the acquisitions.

Chang Ye Group

The Group performed its annual impairment test for goodwill allocated to the Chang Ye Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five year period approved by management have been extrapolated with an estimated general annual growth of 3% (2013: 3%) for a five-year period. The discount rate used of 23.22% (2013: 25.38%) reflects specific risks related to the relevant segment. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

Red Hero Group

The Group performed its annual impairment test for goodwill allocated to the Red Hero Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five-year period approved by management have been extrapolated with an estimated general annual growth of 3% (2013: 3%) for a five-year period. The discount rate used of 20.92% (2013: 25.05%) reflects specific risks related to the relevant segment. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

Kassade Group

The Group performed its annual impairment test for goodwill allocated to the Kassade Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five-year period approved by senior management have been extrapolated with an estimated general annual growth of 3% for year period. The discount rate used of 14.64% reflects specific risks related to the relevant segment. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

19. GOODWILL *(CONTINUED)*

(i) Sales of wooden furnishing products *(continued)*

Polar Sunshine Group

The Group performed its annual impairment test for goodwill allocated to the Polar Sunshine Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five year period approved by management have been extrapolated with an estimated general annual growth of 3% for year period. The discount rate used of 15.59% reflects specific risks related to the relevant segment. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

(ii) Information and technology services

The Group performed its annual impairment test for goodwill allocated to the information and technology services CGU by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five year period approved by management have been extrapolated with an estimated general annual growth of 3% (2013: 3%) for a five year period. The discount rate used of 22.75% (2013: 22.18%) reflects specific risks related to the relevant segment. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

During the year ended 31 December 2014, due to the unsatisfactory performance of information and technology services segment in 2014, the Group recognised an impairment loss of approximately HK$133,548,000 (2013: HK$33,256,000).

20. INVENTORIES

	Group	
	2014	2013
	HK$'000	*HK$'000*
Raw materials	**15,425**	47,551
Work in progress	**2,539**	—
Finished goods	**104,352**	323
	122,316	47,874

21. LOAN RECEIVABLES

The Group's loan receivables arose from the money lending business during the year.

Loan receivables bear interest at rates, and with credit periods, mutually agreed between the contracting parties. Each customer has a credit limit. Loan receivables are secured by the pledge of debtors' assets or personal guarantees by the debtors/certain individuals. Overdue balances are reviewed regularly and handled closely by senior management.

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21. LOAN RECEIVABLES *(CONTINUED)*

	Group	
	2014	2013
	HK$'000	*HK$'000*
Loan receivables	**2,432**	2,183
Less: impairment loss for the year	**(2,100)**	—
Classified as non-current assets	**—**	(123)
Current assets	**332**	2,060

The loan receivables at the end of the reporting period are analysed by the remaining period to contractual maturity date as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Repayable:		
Within 3 months	**16**	15
3 months to 1 year	**249**	2,045
Over 1 year	**67**	123
	332	2,183
Classified as current assets	**(332)**	(2,060)
Non-current assets	**—**	123

The aged analysis of the loan receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Neither past due nor impaired	**332**	2,183
Impaired	**2,100**	—
	2,432	2,183

Loan receivables that were neither past due nor impaired relate to certain debtors for whom there was no recent history of default.

At 31 December 2014, the Group's loan receivables of HK$2,432,000 (2013: HK$2,183,000) were individually assessed for impairment. The individually impaired receivable related to a customer that was in financial difficulties and management assessed that the amount was not able to be recovered. Consequently, impairment loss of HK$2,100,000 (2013: HK$Nil) was recognised.

22. TRADE AND BILLS RECEIVABLES

	Group	
	2014	2013
	HK$'000	*HK$'000*
Trade and bills receivables	**419,372**	177,285
Impairment loss for the year	**(96,192)**	(10,796)
	323,180	166,489

Trading of household furnitures are with credit terms of 30 to 180 days. The Group has a defined credit policy and it varies with the financial strength of individual customers. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Current	**129,743**	126,640
31-60 days	**80,254**	26,097
61-90 days	**57,358**	10,891
91-180 days	**47,811**	2,800
Over 180 days	**104,206**	10,857
	419,372	177,285

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
At 1 January	**10,796**	129
Impairment loss for the year	**96,192**	10,796
Amount written off	**(155)**	(129)
Impairment losses reversed	**(10,641)**	—
At 31 December	**96,192**	10,796

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of approximately HK$96,192,000 (2013: HK$10,796,000) with a carrying amount before provision of approximately HK$96,192,000 (2013: HK$10,796,000).

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22. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

The aged analysis of the trade and bills receivables that are not considered to be impaired as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Neither past due nor impaired	**315,167**	166,300
Less than 1 month past due	**—**	161
1 to 3 months past due	**—**	16
Over 3 months past due	**8,013**	12
	323,180	166,489

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, and the directors having performed an assessment, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables	**14,287**	12,438	**10**	120
Less: impairment loss for the year	**(8,979)**	(905)	**—**	—
	5,308	11,533	**10**	120
Prepayments and deposits	**28,081**	52,576	**25,622**	29,822
Advance to suppliers	**190,979**	200,980	**—**	—
	224,368	265,089	**25,632**	29,942

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

The movements in provision for impairment of other receivables are as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
At 1 January	**905**	764
Amount written off	**(905)**	—
Impairment loss for the year	**8,979**	141
At 31 December	**8,979**	905

Included in the above provision for impairment of the Group's other receivables is a provision for individually impaired other receivables of HK$8,979,000 (2013: HK$141,000) with a carrying amount before provision of HK$905,000 (2013: HK$764,000).

Other receivables that were neither past due nor impaired relate to a number of debtors for whom there was no recent history of default.

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2014	2013
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	**14,547**	68,214

The above equity investments at 31 December 2013 and 2014 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss.

Certain listed equity investments of the Group were pledged to secure the trade finance facilities granted to the Group (note 27).

25. CONVERTIBLE NOTE RECEIVABLE

The convertible note receivable contains two components: debt and conversion option components. The debt component is accounted for as loans and receivables, while the conversion option is accounted for as derivative financial instrument.

In October 2012, Victory Chain Investment Limited, a wholly-owned subsidiary of the Group, acquired convertible note issued by Inno-Tech Holdings Limited ("Inno-Tech") with principal amount of HK$3,000,000 at a total consideration of HK$3,060,000. The convertible note was unsecured and bore no interest and fell due on 28 August 2014.

The convertible note entitled the holder thereof to convert into ordinary shares of Inno-Tech at conversion price of HK$0.38 per share (subject to adjustment). The convertible note receivable was convertible into ordinary shares on the second anniversary from the date of the issue. Unless previously redeemed or converted, any amount of the convertible note which remained outstanding on the maturity date shall be redeemed at 100% of the outstanding principal amount of the convertible note. Inno-Tech was entitled to redeem the convertible note prior to the maturity date ("Early Redemption Right").

The debt component of convertible note was measured at amortised cost and the effective interest rate was 10.88% per annum. The conversion option component is presented as conversion option embedded in convertible note receivable in the consolidated statement of financial position, the fair value of which was HK$1 at the beginning of the reporting period. The fair value of the Early Redemption Right was HK$Nil at the beginning of the reporting period.

On 16 July 2014, Inno-Tech executed the amendment deed of placing convertible note (the "Convertible Note Amendment Deed") to amend the terms and conditions of the convertible note so as to enable Inno-Tech to early redeem the outstanding principal amounts of the convertible note before the respective maturity dates at the average redemption amount equal to 22.2% of the principal amounts then outstanding to be satisfied by the issue and allotment of the settlement shares at an issue price of HK$2.22 each, assuming that the share consolidation has become effective.

On 7 August 2014, Inno-Tech executed the Deed Of Amendment to extend the maturity date of the Placing convertible notes from 29 August 2014 to 28 November 2014.

On 3 December 2014, Inno-Tech redeem the convertible note in whole under the Convertible Note Amendment Deed with the redemption amount equal to 22.2% of the principal amount of the convertible note then outstanding. It converted 300,000 shares of Inno-Tech at the convert price of HK$2.22 per share for the total redemption amount of HK$666,000.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**243,673**	38,286	**770**	12,328
Time deposits	**1,073**	1,046	**—**	—
	244,746	39,332	**770**	12,328
Less: Pledged time deposits secured for banking facilities	**(1,073)**	(1,046)	**—**	—
Cash and cash equivalents	**243,673**	38,286	**770**	12,328

At 31 December 2014, approximately HK$186,289,000 (2013: HK$19,217,000) of the Group's cash and bank balances were denominated in Renminbi, which is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchanges, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. BANK OVERDRAFTS, BANK LOAN AND STRICT BONDS

	2014	2013
	HK$'000	*HK$'000*
Bank borrowings		
Bank overdrafts, secured *(note (i))*	**3,222**	2,324
Bank loan, secured *(notes (i) and (ii))*	**45,125**	45,686
	48,347	48,010
Other borrowings		
Strict bonds, unsecured *(note (iii))*	**338,000**	223,000
Total borrowings	**386,347**	271,010
Classified as current liabilities	**(176,347)**	(48,010)
Non-current liabilities	**210,000**	223,000

27. BANK OVERDRAFTS, BANK LOAN AND STRICT BONDS *(CONTINUED)*

Notes:

(i) The bank borrowings of HK$3,222,000 (2013: HK$3,182,000) comprise of bank overdrafts of HK$3,222,000 (2013: HK$2,324,000) and bank loan of approximately HK$Nil (2013: HK$858,000) is secured by:

(a) Time deposits of the Group of approximately HK$1,073,000 (2013: HK$1,046,000); and

(b) Certain listed equity investment of the Group of approximately HK$5,576,000 (2013: HK$4,309,000).

In addition, such loan is supported by the personal guarantee of HK$26,500,000 (2013: HK$6,500,000) and HK$53,000,000 (2013: HK$28,000,000) given by a former director and a non-executive director of the Company respectively.

The effective interest rate of the bank borrowings was 5.25% per annum and repayable within a year.

(ii) The bank loan of RMB35,000,000 (approximately equivalent to HK$45,125,000) is secured by personal guarantee of RMB35,000,000 (approximately equivalent to HK$45,125,000) put up by a director of the Company and his spouse; certain land and buildings held by 中山嘉冠實業有限公司, a related company controlled by a director and his spouse. The effective interest rate of the loan was 6.6% per annum and repayable within a year.

(iii) During the year ended 31 December 2014, the Group issued certain fixed rate strict bonds repayable ranging from 1 to 8 years. The fixed coupon rate and effective interest rate are ranging from 5% to 8% per annum in which approximately of HK$283,000,000 (2013: HK$178,000,000) can be early redeemed on demand by the Group.

The strict bonds are repayable as follows:

	Group and Company	
	2014	2013
	HK$'000	*HK$'000*
Within one year	**128,000**	—
Between two to five years	**27,000**	143,000
After five years	**183,000**	80,000
	338,000	223,000

(iv) The carrying amounts of borrowings are denominated in the following currencies:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollar	**341,222**	226,182	**338,000**	223,000
Renminbi	**45,125**	44,828	**—**	—
	386,347	271,010	**338,000**	223,000

28. TRADE PAYABLES

An aged analysis of trade payables of the Group is as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Current	**33,299**	5,565
31-60 days	**10,334**	3,653
61-90 days	**3,010**	6,270
91-180 days	**5,464**	23,324
Over 180 days	**28,331**	699
	80,438	39,511

The trade payables are non-interest-bearing and are normally settled on 180 day term.

29. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2014	2013	**2014**	2013
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	*i*	**24,772**	6,626	**—**	—
Amounts due to directors	*ii*	**17,505**	18,712	**—**	—
Amounts due to related parties	*ii*	**7,380**	1,593	**—**	—
Receipt in advance		**—**	140	**—**	—
Accruals		**38,800**	14,309	**26,486**	8,165
		88,457	41,380	**26,486**	8,165

Notes:

(i) Other payables are unsecured, non-interest-bearing and have an average term of three months.

(ii) The balances are unsecured, interest-free and repayable on demand.

30. OBLIGATION UNDER FINANCE LEASES

	Group	
	Minimum lease payments 2014 *HK$'000*	**Present value of minimum lease payments 2014** *HK$'000*
Within one year	321	284
Between two and five years	554	510
	875	794
Less: Future finance charge	(81)	—
	794	794
Classified as current liabilities		(284)
Non-current liabilities		510

The effective interest for obligations under finance leases are fixed and ranging from 1.8% to 3% (2013: Nil). The average lease term is 3 years (2013: Nil)

31. CONVERTIBLE BONDS

The liabilities component of convertible bonds at 31 December is as follows:

	Group and Company	
	2014 ***HK$'000***	2013 *HK$'000*
CB 1	**14,827**	11,192
CB 3	**369,094**	325,115
CN 1	**20**	187
Total	**383,941**	336,494
Classified as current liabilities	**(20)**	(—)
Non-current liabilities	**383,921**	336,494

31. CONVERTIBLE BONDS *(CONTINUED)*

Convertible Bonds issued in 2013

On 9 July 2013, the Company issued 2% convertible bonds with an aggregate nominal value of HK$71,916,160 (the "CB 1"). The maturity date of the CB 1 is at the end of 30th months of the date of issue of the convertible bonds. The bond holders have the rights to convert the bonds into approximately 97,184,000 conversion shares at initial conversion price of HK$0.74 per conversion share. During the year ended 31 December 2013, the CB 1 with nominal value of HK$51,800,000 have been converted, at a conversion price of HK$0.74 into 70,000,000 ordinary shares of HK$0.001 each. The outstanding principal amounts of the CB 1 as at 31 December 2014 was HK$20,116,160.

	Group and Company		
	Liability component *HK$'000*	Equity component *HK$'000*	Total *HK$'000*
At 1 January 2013	—	—	—
Issue of convertible bonds	38,445	33,471	71,916
Conversion into shares during the year	(27,795)	(24,109)	(51,904)
Imputed interest expense	781	—	781
Interest paid and payable	(239)	—	(239)
At 31 December 2013 and 1 January 2014	11,192	9,362	20,554
Imputed interest expense	4,037	—	4,037
Interest paid and payable	(402)	—	(402)
At 31 December 2014	14,827	9,362	24,189
Classified as current liabilities	—		
Non-current liabilities	14,827		

On 11 October 2013, the Company issued 3% convertible bonds with principal value of HK$143,000,000 (the "CB 2") as a consideration for the acquisition of subsidiaries. The maturity date of the CB 2 was the 3rd anniversary of the date of the issue of the CB 2. The CB 2 were convertible into ordinary shares of the Company during the period commencing on the date issue of the CB 2 and expiring on the maturity date at the initial conversion price of HK$1.00 per share. The CB 2 carried interest at a rate of 3% per annum which was payable annually in arrears after the date of issue. Pursuant to the agreement of the convertible bonds, no interest was payable for the conversion within 1 year after the date of issue. Up to 31 December 2013, all of the CB 2 have been converted, at a conversion price of HK$1.00, into 143,000,000 ordinary shares of HK$0.001 each.

31. CONVERTIBLE BONDS *(CONTINUED)*

Convertible Bonds issued in 2013 *(continued)*

	Group and Company		
	Liability component *HK$'000*	**Equity component** *HK$'000*	**Total** *HK$'000*
At 1 January 2013	—	—	—
Issue of convertible bonds	78,949	64,051	143,000
Conversion of shares during the year	(80,893)	(64,051)	(144,944)
Imputed interest expense	1,944	—	1,944
At 31 December 2013 and 2014	—	—	—
Classified as current liabilities	—		
Non-current liabilities	—		

On 31 December 2013, the Company issued 2% convertible bonds with principal value of HK$480,000,000 (the "CB 3") as a consideration for the acquisition of subsidiaries. The maturity date of the CB 3 is the 3rd anniversary of the date of the issue of the CB 3. The CB 3 carries interest at a rate of 2% per annum which is payable annually in arrears after the date of issue. The bond holders have the rights to convert the CB 3 into ordinary shares of the Company on or before the third anniversary from the issue date of the CB 3 with the conversion price of HK$0.90 per share, subject to adjustments. The Company is entitled to early redeem the CB 3 in whole or in part at a price equal the outstanding principal amount plus interest accrued thereon.

	Group and Company		
	Liability component *HK$'000*	**Equity component** *HK$'000*	**Total** *HK$'000*
At 1 January 2013	—	—	—
Issue of convertible bonds	325,115	154,885	480,000
At 31 December 2013 and 1 January 2014	325,115	154,885	480,000
Imputed interest expense	53,579	—	53,579
Interest paid and payable	(9,600)	—	(9,600)
At 31 December 2014	369,094	154,885	523,979
Classified as current liabilities	—		
Non-current liabilities	369,094		

31. CONVERTIBLE BONDS *(CONTINUED)*

Convertible Note issued in 2012

On 3 September 2012, the Company issued 2% convertible note with principal value of HK$50,000,000 (the "CN 1") as a partial consideration for the acquisition of subsidiaries. The maturity date of the CN 1 is the 3rd anniversary of the date of the issue of the CN 1. The CN 1 are convertible into ordinary shares of the Company during the period from 3 months after the date of issue of the CN 1 and expiring on the business day immediately preceding the maturity date at the initial conversion price of HK$0.12 per share, subject to adjustments. The CN 1 carries interest at a rate of 2% per annum which is payable semi-annually in arrears of the last day of June and December each year after the date of issue. The Company is entitled to early redeem the CN 1 in whole or in part at a price equal the outstanding principal amount plus interest accrued thereon.

During the year ended 31 December 2014, the CN 1 with nominal value of HK$5,050,080 (2013: HK$44,000,000) have been converted at a conversion price of HK$0.12 into 42,084,000 (2013: 366,666,666) ordinary shares of HK$0.001 each. The outstanding principal amount of CN 1 as at 31 December 2014 was HK$949,920.

	Group and Company		
	Liability component *HK$'000*	Equity component *HK$'000*	Total *HK$'000*
At 1 January 2013	2,591	47,503	50,094
Conversion into shares during the year	(1,760)	(41,802)	(43,562)
Imputed interest expense	129	—	129
Interest paid and payable	(773)	—	(773)
At 31 December 2013 and 1 January 2014	187	5,701	5,888
Conversion into shares during the year	(102)	(4,798)	(4,900)
Imputed interest expense	21	—	21
Interest paid and payable	(86)	—	(86)
At 31 December 2014	20	903	923
Classified as current liabilities	(20)		
Non-current liabilities	—		

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32. PROMISSORY NOTES

	Group	
	2014	2013
	HK$'000	*HK$'000*
At 1 January	**251,666**	321,914
Promissory notes issued *(notes a and b)*	**100,000**	60,000
Fair value change on issuance of promissory notes	**(33,865)**	(9,192)
Less: Shortfall of guaranteed revenue *(note c)*	**—**	(41,852)
Early redemption *(note d)*	**—**	(106,894)
Imputed interest expenses	**30,759**	36,450
Interest paid and payable	**(4,426)**	(8,760)
At 31 December	**344,134**	251,666
Classified as current liabilities	**(218,689)**	—
Non-current liabilities	**125,445**	251,666

	Company	
	2014	2013
	HK$'000	*HK$'000*
At 1 January	**98,653**	148,968
Promissory notes issued *(notes a and b)*	**100,000**	60,000
Fair value change on issuance of promissory notes	**(33,865)**	(9,192)
Early redemption *(note d)*	**—**	(106,894)
Imputed interest expenses	**13,131**	14,531
Interest paid and payable	**(4,426)**	(8,760)
At 31 December	**173,493**	98,653
Classified as current liabilities	**(48,048)**	—
Non-current liabilities	**125,445**	98,653

32. PROMISSORY NOTES *(CONTINUED)*

Notes:

(a) On 11 July 2014, the Company issued an unsecured promissory note with principal value of HK$100,000,000 (the "PN4") for the acquisition of subsidiaries. The PN4 does not carry any interest and fall due on 10 July 2019 (the "PN4 Maturity Date"). The fair values of the PN4 was approximately HK$66,135,000.

The PN4 is subsequently measured at amortised cost, using effective interest rate of 8.62%. As at 31 December 2014, the carrying amount of the PN4 was approximately HK$68,836,000.

During the year ended 31 December 2014, imputed interest of approximately HK$2,701,000 was charged to profit or loss of the Group.

(b) On 3 January 2013, the Company issued an unsecured promissory note with principal value of HK$60,000,000 (the "PN3"). The PN3 bears interest at 4% per annum and fall due on 31 March 2016 (the "PN3 Maturity Date"). The Company has the right to redeem in full or in part of the principal amount of the PN3 prior to the PN3 Maturity Date (the "PN3 Early Redemption Right"). The fair values of the PN3 and the PN3 Early Redemption Right at the date of issuance were approximately HK$50,808,000 and HK$Nil respectively.

The PN3 is subsequently measured at amortised cost, using effective interest rate of 10.18%. As at 31 December 2014, the carrying amount of the PN3 was approximately HK$56,608,000 (2013: HK$53,557,000).

The PN3 was held by Jolly Treasure Developments Limited ,a related company controlled by Mr. Kuang Yuanwei, an executive director of the Company. During the year ended 31 December 2014, imputed interest of approximately HK$5,451,000 (2013: HK$5,130,000) was charged to profit or loss of the Group. In addition, no interest has been paid in connection to this promissory note.

(c) On 3 September 2012, Sky Treasure Worldwide Limited ("Sky Treasure"), an indirect wholly-owned subsidiary of the Group, issued an unsecured promissory note with principal value of HK$228,000,000 (the "PN 1") as a partial consideration for the acquisition of subsidiaries. The PN bears interest at 3% per annum and is payable on 3 September 2015 (the "PN 1 Maturity Date"). Sky Treasure has the right to redeem in full or in part of the principal amount of the PN 1 prior to the PN 1 Maturity Date (the "PN 1 Early Redemption Right"). The fair values of the PN 1 and PN 1 Early Redemption Right at the date of issuance were approximately HK$179,581,000 and HK$Nil respectively.

Pursuant to the Deed of Variation, there was a shortfall of guaranteed revenue of m3 Group in 2012 and 2013 of approximately HK$13,379,000 and HK$41,852,000 respectively, which were deducted from the principal amount of PN 1.

The PN 1 is subsequently measured at amortised cost, using effective interest rate of 11.52%. As at 31 December 2014, the carrying amount of the PN 1 was approximately HK$170,642,000 (2013: HK$153,014,000).

During the year ended 31 December 2014, imputed interest of approximately HK$17,628,000 (2013: HK$21,919,000) was charged to profit or loss of the Group. In addition, no interest has been paid in connection to this promissory note.

(d) On 10 October 2012, the Company early redeemed the convertible bonds issued in 2010 ("CB 2010") with principal value of approximately HK$217,123,000 by way of issuing a promissory note with principal value of approximately HK$173,698,000 ("PN2"), which represents 80% of the outstanding principal amount of the remaining principal value of CB 2010. The PN2 bears interest at 4% per annum and payable in the 31st day of December each year. The first payment shall be made on 31 December 2013. The maturity date of the promissory note is 9 October 2015 (the "PN2 Maturity Date"). The Company has the right to redeem in full or in part of the principal amount together with interest accrued thereon at any time prior to the PN2 Maturity Date (the "PN2 Early Redemption Right"). During the year ended 31 December 2013, certain amount of PN2 with principal amount of approximately HK$123,073,000 with carrying amount of approximately HK$106,894,000 have been redeemed by (i) cash of approximately HK$43,049,000; (ii) offseting of the aggregate amount of the loan receivable of approximately HK$8,108,000; and (iii) issuing of CB 1 in the principal amount of approximately HK$71,916,000 with the rights to convert into approximately 97,184,000 conversion shares at initial conversion price of HK$0.74 per conversion share respectively.

The PN2 is subsequently measured at amortised cost, using effective interest of 11.04%. As at 31 December 2014, the carrying amount of the PN2 was approximately HK$48,048,000 (2013: HK$45,095,000).

During the year ended 31 December 2014, imputed interest of approximately HK$4,979,000 (2013: HK$9,401,000) was charged to profit or loss of the Group. In addition, no interest has been paid in connection to this promissory note.

33. SHARE CAPITAL

Authorised:

	No. of ordinary shares	*HK$'000*
As at 1 January 2013, 31 December 2013 and 31 December 2014 (HK$0.001 each)	1,500,000,000,000	1,500,000

Issued and fully paid:

	No. of ordinary shares	*HK$'000*
As at 1 January 2013 (HK$0.001 each)	2,186,648,298	2,187
Issue of shares upon the conversion of convertible bonds *(note a)*	579,666,666	579
As at 31 December 2013 and 1 January 2014 (HK$0.001 each)	2,766,314,964	2,766
Issue of shares upon the conversion of convertible bonds *(note b)*	42,084,000	42
Issue of shares for the acquisition of subsidiaries *(note c)*	356,000,000	356
Issue of shares under share option scheme *(note d)*	2,000,000	2
As at 31 December 2014	3,166,398,964	3,166

Note:

(a) During the year ended 31 December 2013, certain convertible bonds and convertible notes with an aggregate principal amount of HK$238,800,000 were converted into 579,666,666 ordinary shares of the Company as set out as below:

i. CN 1 with aggregate principal amount of HK$44,000,000 were converted into 366,666,666 ordinary shares of the Company at a conversion price of HK$0.12 each

ii. CB 1 with aggregate principal amount of HK$51,800,000 were converted into 70,000,000 ordinary shares of the Company at a conversion price of HK$0.74 each

iii. CB 2 with aggregate principal amount of HK$143,000,000 were converted into 143,000,000 ordinary shares of the Company at a conversion price of HK$1.00 each

33. SHARE CAPITAL *(CONTINUED)*

Note (continued)

(b) On 27 August 2014, CN 1 with aggregate principal amount of HK$5,050,080 were converted into 42,084,000 ordinary shares of the Company at a conversion price of HK$0.12 each.

(c) On 14 July 2014, 356,000,000 new ordinary shares of HK$0.001 each of the Company were issued for the acquisition of 100% equity interests in Polar Sunshine Group.

(d) On 10 November 2014 and 3 December 2014, 1,000,000 and 1,000,000 ordinary shares were issued to share option holders who had exercised their options respectively.

34. RESERVES

(a) Group

(i) Share premium

The share premium account is available for distribution to shareholders under the Companies Act 1881 of Bermuda (as amended) and no distribution may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserves

Capital reserves represent the amount of a subsidiary's share capital converted into non-voting deferred shares in pursuant to the Group reorganisation in 1999 in preparation for the listing of the Company's shares on the Stock Exchange.

(iii) Contributed surplus

The contributed surplus of the Group represented the credit amount arising from the capital reductions on 2 September 2010 and 7 October 2011. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment, be unable to pay its liabilities as they become due; (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

(iv) Statutory reserves

According to the rules and regulations in the PRC, a portion of the profit after tax of a Company's PRC subsidiary is required to be transferred to a statutory reserve before distribution of a dividend to its equity owners. The transfer can cease when the balance of the reserve reaches 50% of the registered capital of the subsidiary. The reserve can be applied either to set off accumulated losses or to increase capital.

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34. RESERVES *(CONTINUED)*

(b) Company

	Share premium *HK$'000*	Contributed surplus* *HK$'000*	Employee share option reserves *HK$'000*	Equity component of convertible bonds *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
1 January 2013	1,423,801	388,084	3,587	47,503	(229,421)	1,633,554
Issue of convertible bonds	—	—	—	252,407	—	252,407
Issue of shares upon conversion of convertible bonds	239,830	—	—	(129,962)	—	109,868
Total comprehensive expenses for the year	—	—	—	—	(45,266)	(45,266)
At 31 December 2013	1,663,631	388,084	3,587	169,948	(274,687)	1,950,563
Issue of consideration shares for the acquisition of subsidiaries	238,164	—	—	—	—	238,164
Issue of shares upon conversion of convertible bonds	4,858	—	—	(4,798)	—	60
Equity-settled share-options arrangement	—	—	27,517	—	—	27,517
Issue of shares under share option scheme	1,418	—	(450)	—	—	968
Total comprehensive expenses for the year	—	—	—	—	(952,545)	(952,545)
At 31 December 2014	1,908,071	388,084	30,654	165,150	(1,227,232)	1,264,727

* **Contributed surplus**

Contributed surplus of the Company comprised credit amount arising from the capital reductions on 2 September 2010 and 7 October 2011.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment, be unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

35. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company has a share option scheme (the "Old Scheme") which was adopted on 27 May 2002, valid and effective for a period of 10 years from that date. The Old Scheme was expired on 27 May 2012. No further options could thereafter be offered under the Old Scheme but provision of the Old Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Old Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Old Scheme.

A new share option scheme (the "New Scheme") of the Company was adopted and approved by the Company at the special general meeting of the Company held on 28 June 2013 whereby the directors of the Company are authorised, to invite the eligible person including but not limited to any directors (whether executive or non-executive and whether independent or not) and any employee (whether full time or part time) of the Group or any other person, who, at the sole discretion of the Board, has contributed to the Group, to take up options to subscribe the ordinary shares of the Company (the "Shares") as incentives and rewards for their contribution to the Group. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant. The New Scheme shall be valid and effective for a period of 10 years ending on 28 June 2023, after which no further options will be granted.

The exercise price of options is determined by the board of directors at its sole discretion, save that such price will not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or (c) the nominal value of the shares.

The total number of shares issued and to be issued upon exercise of the options granted to each eligible person in any twelve-month period is limited to 1% of the issued share capital of the Company.

35. SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

Equity-settled share option scheme of the Company *(continued)*

On 3 July 2014, the number of shares in respect of which options had been granted to directors, eligible persons and consultants under the New Scheme was 215,200,000, representing 7.78% of the shares of the Company in issue at that date.

The following tables summaries the movements in the Company's share options during the year ended 31 December 2014

New Scheme	Grant date	At 1 January 2014	Granted during the year	Exercised during the year	Reclassified	At 31 December 2014	Exercise period	Exercise price per share *HK$*
Executive director and CEO								
Dr. Kaneko Hiroshi	3.7.2014	—	8,000,000	—	—	8,000,000	3.7.2014 - 2.7.2024	0.485
Executive director								
Mr. Fu Zhenjun	3.7.2014	—	20,000,000	—	—	20,000,000	3.7.2014 - 2.7.2024	0.485
Mr. Kuang Yuanwei	3.7.2014	—	20,000,000	—	—	20,000,000	3.7.2014 - 2.7.2024	0.485
			48,000,000	—	—	48,000,000		
Other eligible employees	3.7.2014	—	145,200,000	—	—	145,200,000	3.7.2014 - 2.7.2024	0.485
Consultants	3.7.2014	—	22,000,000	(2,000,000)	—	20,000,000	3.7.2014 - 2.7.2024	0.485
		—	215,200,000	(2,000,000)	—	213,200,000		

Old Scheme	Grant date	At 1 January 2014	Granted during the year	Exercised during the year	Reclassified	At 31 December 2014	Exercise period	Exercise price per share *HK$*
Non-Executive director	26.9.2006	48,238	—	—	(48,238)	—	26.9.2010 - 25.9.2016	4.66 *(note 1)*
	11.6.2008	57,917	—	—	(57,917)	—	11.6.2012 - 10.6.2018	33.19 *(note 2)*
		106,155	—	—	(106,155)	—		
Other eligible employees	26.9.2006	96,476	—	—	48,238	144,714	26.9.2010 - 25.9.2016	4.66 *(note 1)*
	11.6.2008	57,916	—	—	57,917	115,833	11.6.2012 - 10.6.2018	33.19 *(note 2)*
		260,547	—	—	—	260,547		

Notes:

(1) The number and the exercise price of share options which remained outstanding have been adjusted due to share consolidation, rights issue, share reorganisation and open offer of the Company with effect from 8 March 2011, 25 July 2011, 7 October 2011 and 25 July 2012 respectively. The exercise price per share was adjusted from HK$0.078 to HK$4.66.

(2) The number and the exercise price of share options which remained outstanding have been adjusted due to share consolidation, rights issue, share reorganisation and open offer of the Company with effect from 8 March 2011, 25 July 2011, 7 October 2011 and 25 July 2012 respectively. The exercise price per share was adjusted from HK$0.556 to HK$33.19.

35. SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

Equity-settled share option scheme of the Company *(continued)*

New Scheme

Employee share option expenses related to the New Scheme were valued at approximately HK$27,516,000 (2013: HK$Nil) and are charged to the consolidated statement of profit or loss. The fair value of the share options granted is measured based on the binomial option pricing model with the following assumptions:

	3 July 2014
Value per option	$0.113-$0.225
Price per share at date of grant	$0.480
Exercise price per share	$0.485
Annual risk-free interest rate	2.08%
Expected volatility	49.05%
Life of options	10 years
Vesting period	—

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 213,200,000 share options outstanding under the New Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 213,200,000 additional ordinary shares of the Company and additional share capital of approximately HK$213,200.

Up to the date of approval of these consolidated financial statements, 2,000,000 share option have been exercised under the New Scheme.

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35. SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

Equity-settled share option scheme of the Company *(continued)*

Old Scheme

No employee share option expenses of related to the Old Scheme are charged to the consolidated statement of profit or loss over the vesting period (2013: HK$Nil). The estimate of the fair value of the share options granted is measured based on the Black-Scholes Valuation model with the following assumptions:

	11 June 2008	26 September 2006
Value per option	$0.42	$0.04
Price per share at date of grant	$0.50	$0.07
Exercise price per share	$0.50	$0.07
Expected volatility	119.71%	73.58%
Annual risk-free interest rate	3.41%	3.69%
Life of options	10 years	10 years
Vesting period	4 years	4 years

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility (standard deviation) reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 260,547 share options outstanding under the Old Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 260,547 additional ordinary shares of the Company and additional share capital of approximately HK$261.

Up to the date of approval of these consolidated financial statements, no share option has been exercised under the Old Scheme.

36. BUSINESS COMBINATION

Acquisition of Kassade Investment Limited and its subsidiaries during the year ended 31 December 2014

On 13 May 2013, the wholly-owned subsidiary, Paradise Shadow Limited, entered into an agreement with an independent third party for the acquisition of 100% issued share capital of Kassade Group at the consideration of HK$100,000,000. Kassade Investment Limited is a company incorporated in the British Virgin Islands, and with its subsidiaries, and principally engages in manufacturing of floor tiles, various wood frames and other household wood products. The consideration was satisfied by way of the issue of a promissory note with principal value of HK$100,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit guaranteed period. The acquisition of Kassade Group was completed on 11 July 2014.

Pursuant to the sales and purchase agreement, the profit guarantee for Kassade Group's total net profit after tax shall not be less than HK$20,000,000 for the each of years ended/ending 31 December 2014, 2015, 2016, 2017 and 2018 respectively. In the event of guaranteed profit cannot be met, the shortfall will be set off against the principal amount of promissory note with a cap of HK$20,000,000 each year. The fair value of the profit guarantees of Kassade Group was HK$7,070,000 at the date of acquisition based on valuation performed by Roma Appraisals Limited, by using a probabilistic model.

As a result of the acquisition, the Group is expected to increase its presence in these markets. The goodwill of approximately HK$59,869,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and Kassade Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair values of the identifiable assets and liabilities of the Kassade Group as at the date of acquisition were as follows:

	2014 *HK$'000*
Property, plant and equipment	1,499
Inventories	4,499
Cash and cash equivalents	517
Prepayments and other receivables	1,667
Trade receivables	7
Trade payables	(6,105)
Other payables and accruals	(2,888)
Total identifiable net liabilities at fair value	(804)
Goodwill on acquisition	59,869
	59,065
Consideration was satisfied by the fair value of:	
Promissory note	66,135
Other financial assets received	(7,070)
	59,065
An analysis of the cash flows in respect of the acquisition is as follows:	
Cash and cash equivalents acquired	517
Net cash inflow of cash and cash equivalents	517

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36. BUSINESS COMBINATION *(CONTINUED)*

Since the acquisition, the Kassade Group contributed approximately HK$135,277,000 to the Group's revenue and approximately HK$21,890,000 to the consolidated profit for the year ended 31 December 2014.

Acquisition of Polar Sunshine Wood Holdings Company Limited and its subsidiaries during the year ended 31 December 2014

On 26 July 2013, the wholly-owned subsidiary, Kingstown Development Limited, entered into an agreement with an independent third party for the acquisition ("Vendor A") of 100% issued share capital of the Polar Sunshine Group. On 27 January 2014, the Company has entered into a second supplemental agreement to extend the long stop date. On 9 April 2014, the Company entered into a third supplemental agreement to amend certain terms of the agreement. Pursuant to the third supplemental agreement, the Company acquires 100% issued share capital of the Polar Sunshine Group at the consideration of HK$210,040,000. Polar Sunshine is a company incorporated in the British Virgin Islands, and with its subsidiaries, principally engages in trading of heating wooden household products and other basic materials for heating wooden household products. The consideration was satisfied by way of the issue of 356,000,000 consideration shares at the issue price of HK$0.59. The acquisition of Polar Sunshine Group was completed on 17 July 2014. The fair value of the shares issue was based on the published price of HK$0.67 on 17 July 2014.

Pursuant to the third supplement agreement, the profit guarantee for the Polar Sunshine Group's total net profits after tax shall not be less than HK$7,500,000, HK$12,000,000 and HK$27,000,000 for the financial years ended/ending 31 December 2014, 2015 and 2016 respectively. In the event of the guaranteed profit cannot be met, the shortfall amount will be reimbursed by the Vendor A as compensation. The fair value of the profit guarantee of the Polar Sunshine Group was HK$Nil at the completion date of acquisition based on valuation performed by Roma Appraisals Limited, by using a probabilistic model.

As a result of the acquisition, the Group is expected to increase its presence in these markets. The goodwill of approximately HK$138,049,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and Polar Sunshine Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

36. BUSINESS COMBINATION *(CONTINUED)*

The fair values of the identifiable assets and liabilities of the Polar Sunshine Group as at the date of acquisition were as follows:

	2014 **HK$'000**
Intangible assets	**134,000**
Inventories	**215**
Cash and cash equivalents	**175**
Prepayments and other receivables	**221**
Trade payables	**(252)**
Other payables	**(388)**
Deferred tax liabilities	**(33,500)**
Total identifiable net assets at fair value	**100,471**
Goodwill on acquisition	**138,049**
	238,520
Consideration was satisfied by the fair value of:	
Shares	**238,520**
An analysis of the cash flows in respect of the acquisition is as follows:	
Cash and cash equivalents acquired	**175**
Net cash inflow of cash and cash equivalents	**175**

Since the acquisition, the Polar Sunshine Group contributed approximately HK$46,823,000 to the Group's revenue and approximately HK$7,600,000 to the consolidated profit for the year ended 31 December 2014.

Had the Kassade Group and Polar Sunshine Group combination taken place at the beginning of the 1 January 2014, the revenue and the loss of the Group would have been approximately HK$1,673,448,000 and approximately HK$861,921,000 respectively.

Acquisition of Chang Ye Holdings Limited and its subsidiaries during the year ended 31 December 2013

On 18 October 2012, the wholly-owned subsidiary, Legend Whistler Limited, entered into an agreement with an independent third party for the acquisition of 100% issued share capital of Chang Ye Group at the consideration of HK$60,000,000. Chang Ye is a company incorporated in the British Virgin Islands, and with its subsidiaries, principally engages in the trading of wooden products and provision of interior design services. The consideration was satisfied by way of the issue of a promissory note with principal value of HK$60,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit guarantee period. The acquisition of Chang Ye Group was completed on 3 January 2013.

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36. BUSINESS COMBINATION *(CONTINUED)*

Pursuant to the sales and purchase agreement, the profit guarantee for the Chang Ye Group's total net profit after tax shall not be less than HK$15,000,000 for the each of years ended/ending 31 December 2013, 2014 and 2015 respectively. In the event of guaranteed profit cannot be met, the shortfall amount will be set off against the principal amount of the promissory note with a cap of HK$15,000,000 each year. The fair value of the profit guarantee of the Chang Ye Group was HK$Nil at the completion date of acquisition based on valuation performed by Roma Appraisals Limited, by using a probabilistic model.

As a result of the acquisition, the Group is expected to increase its presence in these markets. The goodwill of approximately HK$35,931,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and Chang Ye Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair values of the identifiable assets and liabilities of the Chang Ye Group as at the date of acquisition were as follows:

	2013 *HK$'000*
Property, plant and equipment	1,882
Intangible assets	14,846
Inventories	17,618
Cash and cash equivalents	89
Trade receivables	7,078
Prepayments and other receivables	3,207
Trade payables	(10,267)
Other payables and accruals	(10,749)
Amounts due to a director	(4,978)
Tax payables	(138)
Deferred tax liabilities	(3,711)
Total identifiable net assets at fair value	14,877
Goodwill on acquisition	35,931
	50,808
Consideration was satisfied by the fair value of:	
Promissory note	50,808

An analysis of the cash flows in respect of the acquisition is as follows:

	HK$'000
Cash and cash equivalents acquired	89
Net cash inflow of cash and cash equivalents	89

Since the acquisition, the Chang Ye Group contributed approximately HK$922,357,000 to the Group's revenue and approximately HK$194,006,000 to the consolidated profit for the year ended 31 December 2013.

36. BUSINESS COMBINATION *(CONTINUED)*

Acquisition of Red Hero International Limited and its subsidiaries during the year ended 31 December 2013

On 7 August 2013, the wholly-owned subsidiary, Success Base Management Limited, entered into an agreement with an independent third party for the acquisition of 100% issued share capital of Red Hero Group at a consideration of HK$480,000,000. Red Hero is a company incorporated in the British Virgin Islands, and with its subsidiaries, have been newly incorporated with no material assets and liabilities and the wholly foreign-owned enterprise ("WOFE") was subsequently incorporated in the PRC. WOFE was principally engaged in providing virtual interior design simulation and electronic household product trading platform for selling the Company's household products. The consideration was satisfied by the issue of convertible bonds of HK$480,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit guaranteed period. The acquisition of Red Hero Group was completed on 31 December 2013.

Pursuant a sales and purchase agreement, the profit guarantee for the Red Hero Group's total net profits after tax shall not be less than HK$2,600,000, HK$76,000,000 and HK$162,000,000 for the financial years ended/ending 31 December 2014, 2015 and 2016 respectively. In the event of guaranteed profit cannot be met, the shortfall will be set off against the principal amount of the convertible bonds. The fair value of the profit guarantee of the Red Hero Group was HK$185,184,000 at the completion date of acquisition based on valuation performed by Roma Appraisals Limited, by using a probabilistic model.

As a result of the acquisition, the Group is expected to increase its presence in these markets. The goodwill of approximately HK$294,826,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and Red Hero Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair values of the identifiable assets and liabilities of the Red Hero Group as at the date of acquisition were as follows:

	2013 *HK$'000*
Other payable	(10)
Total identifiable net liabilities at fair value	(10)
Goodwill on acquisition	294,826
	294,816
Consideration was satisfied by the fair value of:	
Convertible bonds	480,000
Other financial assets	(185,184)
	294,816
An analysis of the cash flows in respect of the acquisition is as follows:	
Cash and cash equivalents acquired	—
Net cash inflow of cash and cash equivalents	—

Since the acquisition, the Red Hero Group contributed HK$Nil to the Group's revenue and approximately HK$10,000 to the consolidated loss for the year ended 31 December 2013.

Had the Chang Ye Group and Red Hero Group combination taken place at the beginning of the 1 January 2013, the revenue and the profit of the Group would have been approximately HK$943,457,000 and approximately HK$154,151,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. BUSINESS COMBINATION *(CONTINUED)*

Acquisition of Kotewall Holdings Limited and its subsidiaries during the year ended 31 December 2013

On 23 September 2013, the wholly-owned subsidiary, Bright Intentions Limited, entered into an agreement with an independent third party ("Vendor B") for the acquisition of the entire issued share capital of Kotewall Holdings Limited ("Kotewall") and its subsidiaries (the "Kotewall Group") at a consideration of HK$143,000,000 ("Kotewall Acquisition"). Kotewall is a limited liability company incorporated in the British Virgin Islands. Kotewall Group is principally engaged in investments holding in PRC and did not carry out any significant business transactions on acquisition date. In the opinion of the directors, the acquisition did not constitute an acquisition of business in substance. The acquisition of the properties was then considered as acquisition of assets through acquisition of subsidiaries. Therefore, the acquisition was not accounted for as a business combination in accordance with the requirement of HKFRS 3 — Business Combination. The purchase consideration for the acquisition was satisfied by issuing convertible bonds with an aggregate nominal value of HK$143,000,000 payable to the Vendor B at the acquisition date. The convertible bonds carry interest at 3% per annum and are convertible into shares at any time after the completion of the Kotewall Acquisition. The acquisition was completed on 11 October 2013.

The Acquisition effectively represents an acquisition of assets by the Group. The fair values of the identifiable assets and liabilities of Kotewall Group at the date of acquisition were as follows:

	2013 *HK$'000*
Property , plant and equipment	24,324
Lease premiums for land	118,757
Other payables	(81)
Total identifiable net assets at fair value	143,000
Consideration was satisfied by the fair value of:	
Convertible bonds	143,000

An analysis of the cash flows in respect of the acquisition is as follows:

	HK$'000
Cash consideration	—
Cash and cash equivalents acquired	—
Net cash inflow of cash and cash equivalents	—

36. BUSINESS COMBINATION *(CONTINUED)*

Disposals of subsidiaries during the year ended 31 December 2014

On 31 December 2014, the Group disposed of the entire equity interests in Blue Champion Limited and its subsidiaries to the independent third parties with a consideration of HK$10,000. The loss on disposal was approximately HK$2,325,000. All these subsidiaries were engaged in provision of design and related services and sales of designers' products.

The cash flow and the carrying amount of net assets of the subsidiaries sold or deregistered at the date of disposal were as follows:

	2014
	HK$'000
Property, plant and equipment	**320**
Other receivables	**463**
Cash and cash equivalents	**5**
Amounts due from related parties	**5**
Other payables	**(1,102)**
Amounts due to directors	**(886)**
Amounts due to the related parties	**(1,458)**
Net assets disposed of	**(2,653)**
Non-controlling interests	**4,989**
	2,336
Less: Consideration of disposals	**(10)**
Investment cost	**(1)**
Loss on disposal of subsidiaries, net	**2,325**
Cash consideration received	**10**
Cash and cash equivalents disposed of	**(5)**
Net cash inflow arising on disposals	**5**

There was no disposal of subsidiaries during the year ended 31 December 2013.

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37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Save as transactions disclosed in notes 30, 31, 32, 35 and 36 to the consolidated financial statements, the Group had no other major non-cash transactions during the years ended 31 December 2014 and 2013.

38. COMMITMENTS

(a) Operating lease commitments

As lessee

The Group leases certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises as follows:

	Group	
	2014	2013
	HK$'000	*HK$'000*
Within one year	**11,413**	3,804
In the second to fifth years inclusive	**18,387**	2,003
	29,800	5,807

(b) Other commitments

	Group	
	2014	2013
	HK$'000	*HK$'000*
Acquisition of subsidiaries	**—**	480,000

The Group had commitment in relation to the acquisition of Kassade Group and Polar Sunshine Group of HK$100,000,000 and HK$380,000,000 respectively at 31 December 2013.

(c) Capital commitments

In addition to the above, the Group had the following capital commitments at the end of the reporting period:

	2014	2013
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Injection of capital	**54,595**	54,452
Authorised, but not contracted for:		
Construction cost for the mining infrastructure	**631,583**	641,000

39. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transaction detailed elsewhere in these consolidated financial statements, the Group had the following transactions with the related parties during the year, some of which are also deemed to be connected parties pursuant to the Listing Rules:

Revenue/income from related parties:

Name of related parties	**Nature**	*Notes*	**2014** ***HK$'000***	2013 *HK$'000*
中山市新綠洲木業有限公司 (Zhongshan New Oasis Wood Products Co., Ltd.* ("New Oasis"))	Sales of goods to a related company	*(i)*	**78,229**	154,916
Purchases/expenses paid to related parties:				
中山市新綠洲木業有限公司 New Oasis	Commission paid/payable to a related company	*(i)*	**91**	155
Ching Hing Weaving Dyeing and Printing Factory Limited	Management expenses paid/ payable to a related company	*(ii)*	**900**	480
中山市金島木業制品有限公司 (Zhongshan Jindao Wood products Co., Ltd.* ("Jindao"))	Purchase of raw material from a related company	*(iii)*	**897**	376
中山市金島木業制品有限公司 Jindao	Rental expenses paid to a related company	*(iii)*	**2,171**	162
中山嘉冠實業有限公司 (Zhongshan Jiaguan Industrial Co., Ltd.* ("Jiaguan"))	Rental expenses paid to a related company	*(iv)*	**592**	—
Total			**4,651**	1,173

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

Notes:

(i) New Oasis was previously owned by an executive director of the Company Mr. Kuang Yuanwei.

On 23 April 2013, the Group's wholly-owned subsidiary Zhongshan Prado have entered into strategic cooperation agreement with New Oasis (the "Cooperation Agreement") for the sales of goods to New Oasis and the agency fee paid to New Oasis. Details of the Cooperation Agreement can be found in the circular of the Company dated 9 August 2013.

Such transactions carried out by Zhongshan Prado with New Oasis were in accordance with the terms of the Cooperation Agreement.

These transactions are also connected transactions as defined in the Chapter 14A of the Listing Rules.

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39. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(CONTINUED)*

(a) *(continued)*

Notes: (continued)

(ii) A non-executive director of the Company Mr. Yiu Kwok Ming Tommy is also a director of Ching Hing Weaving Dyeing and Printing Factory Limited.

(iii) An executive director of the Company Mr. Li Zhixiong and his spouse are beneficial owner and director of Jindao.

Such transactions with a related company is exempted from connected transactions requirement as defined in the Chapter 14A of the Listing Rules.

In the opinion of the directors, the transactions between the Group and the related parties were conducted in the ordinary course of business and based on prices mutually agreed between the parties and the Group.

(b) During the year, the key management personnel includes five executive directors (2013: six) and three non executive directors (2013: three). The details of directors' emoluments are included in note 8 to the consolidated financial statements.

40. EVENTS AFTER THE REPORTING PERIOD

In addition to the information detailed elsewhere in these consolidated financial statements, the Group had the following events after the reporting period.

(a) On 31 December 2014, the Company, as tenant, entered into the Tenancy Agreement with Jindao, as landlord, to rent premises for a term of three years commencing from 1 January 2015 and expiring on 31 December 2017.

Jindao is beneficially owned by Mr. Li Zhixiong and his spouse. Mr. Li is the director of the Company. Therefore, Jindao is a connected party of the Company. The entering into of the Tenancy Agreement therefore constitute continuing connected transactions to the Company.

(b) On 23 February 2015, Excel Growth Investments Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party for the acquisition of the entire issued share capital of China New Oriental Household Holdings Limited and its subsidiaries (the "New Oriental Group") at a consideration of HK$420,000,000. The New Oriental Group will be principally engaged in sales of door handles, mortise locks, electronic locks, electronic control locks, security locks, fingerprint locks, decoration hardware, bathroom hanging and household intelligence system. The consideration would be satisfied by way of issue of 540,000,000 consideration shares and the promissory note of HK$123,000,000 subject to the adjustment of the amount of profit guarantee for the relevant profit guaranteed period.

(c) Subsequent to the reporting period and up to the date of approval of annual report, the Company issued certain bonds with aggregate principal amount of approximately HK$67,700,000. The coupon rates of these bonds ranged from 6.5% to 8% per annum with maturity date from January 2019 to March 2023. The proceeds from the bonds would be utilised as the general working capital of the Group.

40. EVENTS AFTER THE REPORTING PERIOD *(CONTINUED)*

(d) On 18 March 2015, the Company and Shenzhen Munsun Asset Management Limited entered into the Fund Establishment Framework Agreement leverage on their respective advantages, the parties establish the Zhongshan Smart Household Fund LP of approximately RMB$2,000,000,000 (subject to the actual amount raised). The parties collectively establish and operate the fund and will both involve in the fund raising and customer attraction process. For the details of the main cooperative terms, please make reference to the announcement dated 18 March 2015.

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

31 December 2014
Financial assets

	Financial assets at fair value through profit or loss *HK$'000*	Loans and receivables *HK$'000*	Total *HK$'000*
Other financial assets	253,919	—	253,919
Loan receivables	—	332	332
Trade and bills receivables	—	323,180	323,180
Financial assets included in other receivables and advance to supplies	—	196,287	196,287
Equity investment at fair value through profit or loss	14,547	—	14,547
Pledged deposits	—	1,073	1,073
Cash and cash equivalents	—	243,673	243,673
	268,466	764,545	1,033,011

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Bank overdrafts, secured	3,222
Bank loans, secured	45,125
Trade payables	80,438
Financial liabilities included in other payables and accruals	88,457
Obligation under finance leases	794
Strict bonds	338,000
Liabilities component of convertible bonds	383,941
Promissory notes	344,134
	1,284,111

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41. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Group *(continued)*

31 December 2013
Financial assets

	Financial assets at fair value through profit or loss *HK$'000*	Loans and receivables *HK$'000*	Total *HK$'000*
Other financial assets	185,184	—	185,184
Convertible note receivable	—	2,951	2,951
Loan receivables	—	2,183	2,183
Trade and bills receivables	—	166,489	166,489
Financial assets included in other receivables and advance to supplies	—	212,513	212,513
Equity investments at fair value through profit or loss	68,214	—	68,214
Conversion option embedded in convertible note receivable	1	—	1
Pledged deposits	—	1,046	1,046
Cash and cash equivalents	—	38,286	38,286
	253,399	423,468	676,867

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Bank overdrafts, secured	2,324
Bank loans, secured	45,686
Trade payables	39,511
Financial liabilities included in other payables and accruals	41,240
Strict bonds	223,000
Liability component of convertible bonds	336,494
Promissory notes	251,666
	939,921

41. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

Company

Financial assets

	2014 Loans and receivables HK$'000	2013 Loans and receivables HK$'000
Financial assets included in other receivables, prepayments and deposits	**10**	120
Cash and cash equivalents	**770**	12,328
Amounts due from subsidiaries	**288,642**	199,034
	289,422	211,482

Financial liabilities

	2014 Financial liabilities at amortised cost HK$'000	2013 Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals	**26,486**	8,165
Liability component of convertible bonds	**383,941**	336,494
Promissory notes	**173,493**	98,653
Strict bonds	**338,000**	223,000
	921,920	666,312

42. FAIR VALUE MEASUREMENT

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 31 December 2014 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

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

42. FAIR VALUE MEASUREMENT *(CONTINUED)*

Assets measured at fair value

Group

As at 31 December 2014

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Equity investments at fair value through profit or loss	**14,547**	**—**	**—**	**14,547**
Other financial assets:				
Profit guarantee	**—**	**—**	**253,919**	**253,919**
	14,547	**—**	**253,919**	**268,466**

As at 31 December 2013

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Equity investments at fair value through profit or loss	68,214	—	—	68,214
Conversion option embedded in convertible note receivable	—	1	—	1
Other financial assets:				
Profit guarantee	—	—	185,184	185,184
	68,214	1	185,184	253,399

All of the Group's fair value measurements were revalued at the end of financial reporting date. The valuations were carried out by Roma Appraisals Limited, an independent professional qualified valuer. The Group's management have discussion with the valuer on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

During the years ended 31 December 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The Group's policy is to recognise transfers into and out of Level 3 as at the end of the reporting date.

42. FAIR VALUE MEASUREMENT *(CONTINUED)*

Reconciliation of Level 3 fair value measurement of other financial assets as below:

	2014	2013
	HK$'000	*HK$'000*
At 1 January	**185,184**	—
Additions through acquisition of subsidiaries	**7,070**	185,184
Fair value changes	**61,665**	—
At 31 December	**253,919**	185,184

Description of the valuation techniques in Level 2 fair value measurement

The conversion option embedded in convertible note receivable was valued using binomial tree option pricing model.

Description of the valuation techniques and inputs used in Level 3 fair value measurement

As described in note 17 of the financial statement, the fair value of other financial assets are measured at fair value under probabilistic model and take into consideration of whether the profit guarantee is probable to be met. The management of the Group used its internal budgets and forecasts which included information about the fair value measurement using significant unobservable inputs.

If the actual performance was 10% higher/lower than the respective expected performance, the fair value of other financial assets would have been decreased/increased by approximately HK$24,581,000 (2013: HK$18,998,000) and HK$27,885,000 (2013: HK$30,290,000) respectively with the corresponding loss/gain recognised in other losses.

Fair value measurements and valuation processes

The directors have engaged independent professional qualified valuer, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages the independent qualified valuer to perform the valuation. The directors of the Company works closely with the qualified valuer to establish the appropriate valuation techniques and inputs to the model. The financial controller reports the findings to the board of directors of the Company every year to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans and overdrafts, convertible bonds, strict bonds and promissory notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate interest bearing receivables and payables, including bank balances.

The Group's fair value interest rate risk relates primarily to its fixed-rate loans and bank overdraft, bank borrowing, finance leases, promissory notes, convertible bonds and strict bonds.

The Group currently does not have an interest rate hedging policy in relation to fair value interest rate risk and cash flow interest rate risk. However, management of the Group monitors interest rate exposure on an on-going basis and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB Benchmark Loan Rates offered by the People's Bank of China or LIBOR.

Sensitivity analysis

The management determines that the Group's exposure of interest rate risk was not significant and hence no sensitivity analysis is prepared.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Foreign currency risk

The Group is exposed to currency risk as certain cash and cash equivalents, trade and other receivables, trade and other payables primarily through sales and purchases are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily in Renminbi ("RMB") and United States Dollars ("USD").

The Group ensures that the exposure on recognised assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate is kept to an acceptable level.

Exposure to currency risk

The following table details the Group's significant exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in foreign currencies.

The Group

	2014		2013	
	RMB'000	***USD'000***	*RMB'000*	*USD'000*
Trade and bills receivables	**—**	**146**	—	1,580
Cash and cash equivalents	**4**	**1,705**	157	101
Pledged deposits	**1,072**	**—**	1,046	—
Trade payables	**—**	**(26,519)**	(524)	(27,746)
Bank loans	**—**	**—**	—	(857)
Overall net exposure	**1,076**	**(24,668)**	679	(26,922)

Since Hong Kong dollars is pegged to United States dollar, the management considers that there is no significant exposure expected on United States dollars transactions and balances.

The Group's foreign currency risk on Renminbi to Hong Kong dollar and United States dollar to Renminbi arises primarily from cash and bank balances and trade payables. At year end, the Group was not exposed significant foreign currency risk as the sensitivity effect on these assets/(liabilities) was immaterial and hence no sensitivity analysis is prepared.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the Group's credit risk is primarily attributable to the Group's trade and other receivables and deposits with financial institutions.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and bill receivables, individual credit evaluations are performed for all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within six months from the date of billing. Normally, the Group does not obtain collateral from customers. The impairment losses on bad and doubtful debts are within management's expectation.

(i) Trade and bills receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group had certain concentration risk as 4% (2013: 34%) and 26% (2013: 75%) of the total trade and bill receivables were due from the Group's largest customer and the five largest customers, respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantee which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bill receivables are set out in note 22.

(ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions with no recent history of default and high credit rating. Management does not expect any counterparty to fail to meet its obligations.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

	On demand or no fixed terms of repayment *HK$'000*	Less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	1 year to 5 years *HK$'000*	After 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
2014							
Bank overdrafts, secured	**3,222**	**—**	**—**	**—**	**—**	**3,222**	**3,222**
Bank loans, secured	**48,037**	**—**	**—**	**—**	**—**	**48,037**	**45,125**
Trade payables	**—**	**46,643**	**33,795**	**—**	**—**	**80,438**	**80,438**
Other payables and accruals	**88,457**	**—**	**—**	**—**	**—**	**88,457**	**88,457**
Convertible bonds	**—**	**—**	**33**	**403,532**	**—**	**403,565**	**383,941**
Promissory notes	**—**	**—**	**235,426**	**127,865**	**—**	**363,291**	**344,134**
Strict bonds	**—**	**—**	**144,805**	**73,106**	**191,254**	**409,165**	**338,000**
Obligation under finance leases	**—**	**92**	**229**	**554**	**—**	**875**	**794**
	139,716	**46,735**	**414,288**	**605,057**	**191,254**	**1,397,050**	**1,284,111**
2013							
Bank overdrafts, secured	2,324	—	—	—	—	2,324	2,324
Bank loans, secured	48,701	—	—	—	—	48,701	45,686
Trade payables	—	557	38,954	—	—	39,511	39,511
Other payables and accruals	41,240	—	—	—	—	41,240	41,240
Convertible bonds	—	—	59	366,249	—	366,308	336,494
Promissory notes	—	—	18,762	256,486	—	275,248	251,666
Strict bonds	—	—	16,525	153,278	82,759	252,562	223,000
	92,265	557	74,300	776,013	82,759	1,025,894	939,921

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as equity investments at fair value through profit or loss as at 31 December 2014. The Group's listed investments are listed in Hong Kong and are valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 5% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments *HK$'000*	Change in the Group's loss before tax *HK$'000*	Change in the Group's equity* *HK$'000*
2014			
Investments listed in:			
Hong Kong — equity investments at fair value through profit or loss	**14,547**	**727**	**—**

	Carrying amount of equity investments *HK$'000*	Change in the Group's loss before tax *HK$'000*	Change in the Group's equity* *HK$'000*
2013			
Investments listed in:			
Hong Kong — equity investments at fair value through profit or loss	68,214	3,411	—

* Excluding accumulated losses

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2014.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes bank overdrafts, trade payables, other payables and accruals, promissory notes, strict bonds less pledged bank deposits and cash and cash equivalents. Capital includes equity attributable to owners of the Company and liability component of convertible bonds.

	2014	2013
	HK$'000	*HK$'000*
The gearing ratios as at the end of reporting periods were as follows:		
Bank overdrafts, secured	**3,222**	2,324
Bank loans, secured	**45,125**	45,686
Trade payables	**80,438**	39,511
Other payables and accruals	**88,457**	41,380
Strict bonds	**338,000**	223,000
Promissory notes	**344,134**	251,666
Less:		
Pledged deposits	**(1,073)**	(1,046)
Cash and cash equivalents	**(243,673)**	(38,286)
Net debt	**654,630**	564,235
Liability component of convertible bonds	**383,941**	336,494
Equity attributable to owners of the Company	**1,574,642**	2,176,178
Total capital	**1,958,583**	2,512,672
Total capital and net debt	**2,613,213**	3,076,907
Gearing ratio	**25%**	18%

44. DIVIDENDS

The directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2014 (2013: Nil).

45. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current presentation.

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2015.

FIVE YEAR SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been re-presented if the operation discontinued during the previous year had been discontinued at the beginning of the previous years.

	2014 **HK$'000**	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000
RESULTS					
Continuing operations					
Revenue	**1,662,093**	943,457	17,286	25,711	198,062
(Loss)/profit before tax	**(707,943)**	225,838	(19,241)	(243,198)	(76,462)
Income tax (expense)/credit	**(153,172)**	(71,677)	(749)	39,521	(585)
(Loss)/profit for the year from continuing operations	**(861,115)**	154,161	(19,990)	(203,677)	(77,047)
Discontinued operation					
Loss for the year from discontinued operation	**—**	—	—	—	(995)
(Loss)/profit for the year	**(861,115)**	154,161	(19,990)	(203,677)	(78,042)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**2,930,969**	3,140,554	2,000,164	1,768,847	1,844,917
Total liabilities	**(1,336,655)**	(953,286)	(333,428)	(342,182)	(570,354)
Shares to be issued	**(21,418)**	(21,418)	(21,418)	—	—
Non-controlling interests	**(1,746)**	10,328	5,200	2,358	2,537