Royal FURNITURE
皇朝傢俬

ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1198

Annual Report 2015

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tse Kam Pang *(Chairman, Chief Executive Officer)*
Mr. Chang Chu Fai Johnson Francis *(Vice Chairman)*
(retired on 5 June 2015)
Mr. Tse Wun Cheung (resigned on 1 February 2016)
Mr. Chen Hao
Mr. Tse Hok Kan (appointed on 1 February 2016)
Mr. Chan Wing Kit (appointed on 1 March 2016)

Non-Executive Director

Mr. Ma Gary Ming Fai (resigned on 1 April 2015)

Independent Non-Executive Directors

Dr. Donald H. Straszheim
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew

AUDIT COMMITTEE

Mr. Yue Man Yiu Matthew *(Chairman)*
Dr. Donald H. Straszheim
Mr. Lau Chi Kit

REMUNERATION COMMITTEE

Mr. Lau Chi Kit *(Chairman)*
Dr. Donald H. Straszheim
Mr. Yue Man Yiu Matthew

NOMINATION COMMITTEE

Mr. Lau Chi Kit *(Chairman)*
Dr. Donald H. Straszheim
Mr. Yue Man Yiu Matthew

COMPANY SECRETARY

Ms. Chan Wei Fun (resigned on 22 June 2015)
Mr. Tse Sing Chau (appointed on 22 June 2015)

AUDITORS

Ernst & Young

SOLICITORS

DLA Piper Hong Kong

PRINCIPAL BANKER

Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Bank of Communications Co., Ltd.
Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre,
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 607, 6/F
Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

STOCK CODE

1198

INVESTOR RELATIONS

Tel: (852) 2636-6648
Email: info@chitaly.com.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

I herein present the annual results of Royale Furniture Holdings Limited (hereafter, "Royale" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2015.

The year 2015 marks the entry of China's macroeconomic new normal into a new phase as well as the start of a difficult period for the China's economy with annual GDP growth falling below 7% for the first time. Looking ahead into 2016, it is expected that China's economic growth will continue to be exposed to many challenges at home and abroad. Under the effect of U.S. monetary policy normalization, a decreasing international commodity transactions, reorientation to macroeconomic policies and other factors, China's growth rate is expected to further decelerate in 2016.

Although the central government will make an appropriate tendency in policy and provide support to the real estate industry in 2016. Under the current situation where the market and economy remains in the doldrums, the real estate industry is unlikely to achieve a reverse breakthrough and turnaround in the short term. The furniture market, being a ancillary market to real estate, is seen to be continuously faced with the challenges of weak consumer spending power and low consumer sentiment for a relatively long period of time.

STRATEGIES AND PROSPECTS

To effectively respond to the current downturn in the furniture market, the Board of the Group formulated the reform strategies of "change for survival, innovation for development" in the second half of 2015, targeting to implement a full range of change and innovation. After adopting a series of effective reform initiatives, we have successfully achieved some progress including an increasing internal cohesion, new products being highly appraised by the market and a full improvement in after-sales services. At 2016 spring exhibition and sale fair which was just concluded, we achieved an encouraging result in terms of the number of contracted new stores.

Despite that we have achieved some progress achievements through preliminary reform and innovation, we deeply understand that we have heavy responsibilities in 2016. 2016 will be a year full of crises and challenges. We believe that, adhering to reforms aiming at "change, innovation and professionalism", the dawn of victory certainly will soon be ushered by the Group after consolidating the strategies of continuously promoting brand strategies, actively exploiting new markets, enacting enterprise culture and improving internal management.

TSE Kam Pang
Chairman

Hong Kong, 30 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board has resolved not to declare a final dividend for the year ended 31 December 2015 (2014: Nil).

Closure of the Register of Members

The Register of Members of the Company will be closed from 1 June 2016 to 3 June 2016, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on 3 June 2016, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 31 May 2016.

FINANCIAL REVIEW

For the year ended 31 December 2015, the Group recorded turnover of HK$659.7 million (2014: HK$918.2 million) representing a decrease of 28% from last year. The loss attributable to owners of the parent for the year was reduced from HK$151.6 million to HK$97.5 million, representing a decrease of 35.7%. The decrease was mainly due to assigning and selling self-operating stores and a downturn market.

For 2015, selling and distribution expenses decreased by 39.7% to approximately HK$116.2 million (2014: HK$192.7 million), which was mainly due to a decrease in operating cost caused by assigning and selling self-operating stores. Administration expenses also decreased by 17.7% to HK$112.4 million (2014: HK$136.6 million), which was mainly due to the implementation of stringent cost control measures. The finance costs during the year decreased by 22.1% to HK$23.8 million (2014: HK$30.6 million) due to the reduction of loans from financial institutions.

BUSINESS REVIEW

Despite that the economy remained challenging, the Group further improved its financial performance by narrowing its loss attributable to owners of the parent for the year to HK$97.5 million from HK$151.6 million, representing a decrease of 35.7%.

Assigning and selling those non-profit making self-operating stores was the major factor of the decrease of turnover and net loss in 2015. Since 2014, the Group had assigned and sold the operation of its own stores in various cities. At the time of this writing, the Group only operates stores in Shanghai, Chengdu and Guangzhou with approximately 12,000 square meters in total.

Sales and Network Management

During the year under review, the Group reformed its sales department to have a better management of its sales network. The sales department is now being divided into two teams: New Franchisee Recruitment Team (NFR team) and Store Maintenance Team (SM team). NFR Team is responsible for inviting new franchisees to open Royal Furniture stores, while SM Team is responsible for ensuring the image, proper operation and future development of the existing stores.

Brand Management

The Group had extended the engagement of Ms. Lin Chi Ling, a famous model and movie star in Asia, as its spokesperson for another four years, to further reinforce its brand equity. Besides, the Group kept on promoting its brand via various media channels such as paper media, electronic media etc.

Inventory and Prepayments, Deposits and Other Receivables

At the end of the year, the Group's inventory decreased by 23.1 % to HK$221.0 million (2014: HK$287.5 million). Prepayments, deposits and other receivables increased by 39.2% to HK$93.1 million (2014: HK$66.9 million)was mainly due to the increase in advances paid to outsourcing factories at year end.

MANAGEMENT DISCUSSION AND ANALYSIS

Working Capital Challenge

The Group had net current liabilities of HK$62.2 million by the end of the year (2014: HK$137.2 million). The Group will continue to take initiatives to improve its working capital, including but not limited to, refinancing of the existing banking facilities, obtaining new banking facilities and assessing the possibility of assets disposal.

Liquidity and Financial Resources

The Group maintained a cash and cash equivalents amounted to HK$89.8 million as at 31 December 2015 (2014: HK$128.4 million).

As at 31 December 2015, in addition to the interest bearing bank and other borrowings amounted to HK$450.6 million (2014: HK$497.2 million), the Group has loan from non-controlling interests of HK$38.1 million (2014: HK$37.2 million). As at the year end, the net debt divided by capital plus net debt of the Group was 35.0% (2014: 37.3%). Approximately, 91.2% of the Group's cash was denominated in Renminbi with the remaining balance was denominated in Hong Kong Dollars. The exposure to the foreign exchange rate fluctuation during the year has been minimal since both of our cash inflow and outflow are predominantly in Renminbi.

As at 31 December 2015, the Group's current ratio (current assets to current liabilities) has increased to 0.89 (2014: 0.80) and the net current liabilities was amounted to HK$62.2 million (2014: net current liabilities HK$137.2 million).

Prospect

Although the loss attributable to owners of the parent for the year has been reduced by 35.7% in 2015, 2016 is expected to be another challenging year for the Group. The Group will continue its business restructuring in 2016 to further improve its overall performance.

The Group will commit further resources to revitalize its established brand "Royal Furniture" which has nearly twenty years of history. Famous movie star, Ms. Lin Chi Ling will remain to be the Group's spokesperson for the coming years. Besides, on top of its in-house designers, the Group has engaged a number of well-known design houses in the market to enrich its product ranges to cater for the fast-changing consumer preferences. Also, the Group is studying the feasibility of setting up a procurement office in Vietnam to take advantage of the low labor costs and raw material costs in the region.

CORPORATE GOVERNANCE REPORT

A. CORPORATE GOVERNANCE PRACTICES

This corporate governance report (the "Corporate Governance Report") is to outline the major principles of the Company's corporate governance. Shareholders of the Company are encouraged to make their views known to the Group if they have issues with the Company's corporate governance and to directly raise any matters of concern to the chairman of the Board (the "Chairman" or the "Chairman of the Board").

The Corporate Governance Code (the "CG Code") is set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For the financial year of the Company ended 31 December 2015 (the "Year") under review, save as disclosed in this Corporate Governance Report, the Company has complied with the applicable code provisions (the "Code Provisions") of the CG Code.

B. DIRECTORS' SECURITIES TRANSACTIONS

In accordance with 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, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with the Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code regarding the Directors' securities transactions during the Year.

C. THE BOARD

Roles and responsibilities

The Board is responsible for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. Directors should make decisions objectively in the interests of the Company.

While day-to-day management, administration and operation of the Company are delegated to the Executive Directors, Chief Executive Officer and senior management, the Independent Non-executive Directors are responsible for:

(a) participating in board meetings of the Company to bring an independent judgement to bear on issue of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(b) taking the lead where potential conflicts of interest arise;

(c) serving on the audit, remuneration and other governance committees, if invited; and

(d) scrutinizing the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

The Board provides leadership, approves major policies, reviews and monitors the business performance of the Group, approves major funding and investment proposals, as well as the financial statements of the Group. Day-to-day management, administration and operation of the Company are delegated to the Executive Directors, Chief Executive Officer and senior management.

CORPORATE GOVERNANCE REPORT

Board Composition

The directors of the Company (the "Directors") during the Year were:

*Executive directors (the "**Executive Director**"):*
Mr. Tse Kam Pang *(Chairman and Chief Executive Officer)*
Mr. Chang Chu Fai Johnson Francis *(Vice Chairman)* (retired on 5 June 2015)
Mr. Tse Wun Cheung (resigned on 1 February 2016)
Mr. Chen Hao

*Non-executive director (the "**Non-executive Director**"):*
Mr. Ma Gary Ming Fai (resigned on 1 April 2015)

*Independent non-executive directors (the "**Independent Non-executive Directors**"):*
Dr. Donald H. Straszheim
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew

As at 31 December 2015, the Board consisted of a total of six members, including three Executive Directors, and three Independent Non-executive Directors. The name and biographical details of each Director and other senior management are set out on pages 18 to 19 of this annual report.

Chairman, Chief Executive Officer and Vice Chairman

Code Provision A.2.1 of the CG Code stipulates that the roles of the Chairman of the Board and the Chief Executive Officer should be separate and should not be performed by the same individual, and that the division of responsibilities between the Chairman and the Chief Executive Officer should be clearly stated.

The Chairman of the Board is responsible for leading the Board, and facilitating the business of the Board and the effectiveness of individual Director, both during and outside Board meetings. The Chairman plays a key role in the development of the Group's strategy and in ensuring management succession. The Chairman is also required to ensure that the principles of good corporate governance and processes of Board meetings are maintained.

The Chief Executive Officer is responsible to lead executive management of the Group. The Board sets limits to the authorities exercisable by the Chief Executive Officer and the Chief Executive Officer remains accountable to the Board within the limits of delegated authorities. The Chief Executive Officer commits to take overall responsibilities for the supervision and the conducts of the Company's business and its ordinary operation, in accordance with the policies, strategies and objectives established by the Group. The Board is responsible to monitor the performance of the Chief Executive Officer and to ensure whether the Board's objectives have been attained.

Mr. Tse Kam Pang, who acts as the chairman and chief executive officer of the Company, is responsible for undertaking the main decision-making role in the management of the Company's overall operations and overseeing the strategic development of the Group. The Board will meet regularly to consider and review the major and appropriate issues affecting the operations of the Company. As such, the Board considers that the sufficient measures have been taken and it will not impair the balance of power and authority between the Board and the management.

In addition, the Vice Chairman of the Company, and an Executive Director, Mr. Chang Chu Fai Johnson Francis was responsible for assisting the Chairman in formulating our growth strategy and effective running of the Board. Mr. Chen Hao, an Executive Director, is responsible for the day-to-day management, administration and operation of the Company.

CORPORATE GOVERNANCE REPORT

Board meeting and procedure

The Company convenes at least four regular Board meetings a year and the Directors shall meet more frequently as and when required. At least 14 days' notice of all regular Board meetings is given to all Directors, and all Directors are given the opportunity to include matters for discussion in the agenda. For all other board meetings, reasonable notice should be given. During the Year, the attendance of individual members is set out in the table below:

	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
Executive Directors				
Mr. Tse Kam Pang	4/4			
Mr. Chang Chu Fai Johnson Francis*	1/4			
Mr. Tse Wun Cheung	4/4			
Mr. Chen Hao	4/4			
Non-executive Director				
Mr. Ma Gary Ming Fai*	1/4			
Independent Non-executive Directors				
Dr. Donald H. Straszheim	4/4	2/2	1/1	1/1
Mr. Lau Chi Kit	4/4	2/2	1/1	1/1
Mr. Yue Man Yiu Matthew	4/4	2/2	1/1	1/1

* Mr. Chang Chu Fai Johnson Francis was retired on 5 June 2015 and Mr. Ma Gary Ming Fai was resigned with effect from 1 April 2015.

All the Directors have access to relevant and timely information. They also have access to the advice and services of the company secretary of the Company (the "Company Secretary"), who is responsible for providing the Directors with Board papers and related materials. Where queries are raised by the Directors, prompt and full responses will be given if possible.

Should a potential conflict of interest involving a substantial shareholder of the Company or a Director arise, the matter will be discussed in a Board meeting, as opposed to being dealt with by a written resolution. Independent Non-executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues.

Independent Non-executive Directors are identified in all corporate communications containing the names of the Directors. An updated list of the Directors identifying the Independent Non-executive Directors and the roles and functions of the Directors is maintained on the website of the Company and the website of the Stock Exchange.

Dr. Donald H. Straszheim, the Independent Non-executive Director, has been reappointed with no fixed term of service on 5 June 2015. Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew, the Independent Non-executive Directors, have been re-appointed with no fixed term of service with the Company on 6 June 2014. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the articles of association of the Company. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and it still considers the Independent Non-executive Directors to be independent.

CORPORATE GOVERNANCE REPORT

Skills, knowledge, experience and attributes of Directors

All Directors served in office during the Year. Every Director commits to give sufficient time and attention to the affairs of the Company. The Directors also demonstrate their understanding and commit to standards of corporate governance. The Executive Director brings his perspectives to the Board through his understanding of the Group's business. The Non-executive Director and the Independent Non-executive Directors contribute their own skills and experience, understanding of local and global economies, and knowledge of capital markets to the Group's business.

Division of responsibilities between the Board and management

While the Board is responsible for directing and approving the Group's overall strategies, the Group also has formed management teams in its business areas, comprising both the Executive Directors and senior officers of the Group, with authority and responsibility for developing and exercising both operational and non-operational duties. The management team members of the Group have a wide range of skills, knowledge and experience necessary to govern the Group's operations. All management team members are required to report directly to the Chairman on a regular basis to report business performance and operational and functional issues of the Group. This will allow the Group's management to allocate resources more efficiently for its decision-making and facilitate its daily operations.

The Board and the Group's management fully appreciate their respective roles and are committed to corporate governance. The Board is responsible for overseeing the processes by which the management identifies business opportunities and risks. The Board's role is not to manage the day-to-day business operations of the Group and the responsibility of which remains vested in the management.

The Board has set up formal procedures for the Board's decisions. Matters which the Board considers suitable for delegation to its committees are contained in the specific terms of reference of its committees. The terms of reference clearly define the powers and responsibilities of the Board committees. In addition, the Board will receive reports and/or recommendations from time to time from the Board committees on any matter significant to the Group.

Induction and training

Each newly appointed Director, executive or non-executive, is required to undertake an induction program to ensure that he has proper understanding of his duties and responsibilities. The induction program includes an overview of the Group's business operation and governance policies, the Board meetings' procedures, matters reserved to the Board, an introduction of the Board committees, the Directors' responsibilities and duties, relevant regulatory requirements, and briefings with senior officers of the Group and site visits (if necessary).

Pursuant to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure their contribution to the Board remains informed and relevant. During the Year, all Directors participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

CORPORATE GOVERNANCE REPORT

Participation in continuous professional development program during the Year are summarized as follows:

	Reading regulatory updates and directors' duties	Reading materials relating to business and industry	Attending professional briefings/seminars/ conferences relevant to directors' duties, regulatory updates and business
Executive Directors			
Mr. Tse Kam Pang	✓	✓	✓
Mr. Chang Chu Fai Johnson Francis*	✓	✓	✓
Mr. Tse Wun Cheung	✓	✓	✓
Mr. Chen Hao	✓	✓	✓
Non-executive Director			
Mr. Ma Gary Ming Fai*	✓	✓	✓
Independent Non-executive Directors			
Dr. Donald H. Straszheim	✓	✓	✓
Mr. Lau Chi Kit	✓	✓	✓
Mr. Yue Man Yiu Matthew	✓	✓	✓
Company Secretary			
Ms. Chan Wei Fun (resigned on 22 June 2015)	✓	✓	✓
Mr. Tse Sing Chau (appointed on 22 June 2015)	✓	✓	✓

* Mr. Chang Chu Fai Johnson Francis was retired on 5 June 2015 and Mr. Ma Gary Ming Fai was resigned with effect from 1 April 2015.

Directors' and officers' liability insurance and indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors and/or officers. Throughout the Year, no claim was made against the Directors and the officers of the Company.

Independent advice

The Board and its committees may seek advice from independent professional advisors whenever it considers appropriate. Each Director, with the consent of the Chairman of the Board and/or the chairman of the audit committee, may seek independent professional advice on matters connected with the Company to perform his responsibilities, at the Group's expense. No Director exercised his right for independent professional advice during the Year.

CORPORATE GOVERNANCE REPORT

Independence of Non-executive Directors

Three Independent Non-executive Directors, namely Dr. Donald H. Straszheim, Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew were considered to be independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

Also, the three Independent Non-executive Directors, representing over one-third of the Board, constituted a proper balance of power maintaining full and effective control of both the Group and its executive management.

Company secretary

All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, the Company Secretary is responsible for facilitating communications among Directors as well as with management.

During the Year, the Company Secretary confirmed that he/she had taken no less than 15 hours of relevant professional training.

Relationships and associations among the Directors

Mr. Tse Wun Cheung is a nephew of Mr. Tse Kam Pang, who is the Chairman of the Company. Save as disclosed, there was no other relationship between members of the Board (including financial, business, family or other material/relevant relationship(s)).

D. BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following Board committees to oversee particular aspects of the Company's affairs. All committees are provided with sufficient resources to discharge their duties.

Audit Committee

As at 31 December 2015, the audit committee of the Board (the "Audit Committee") consisted of three Independent Non-executive Directors, namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Dr. Donald H. Straszheim and Mr. Lau Chi Kit. The Audit Committee meets regularly, normally twice a year, with the senior financial management and meets with external auditor twice a year for final result reviews.

The Audit Committee is provided with sufficient resources to perform its duties. Latest terms of reference of the Audit Committee can be viewed on the website of the Company and the website of the Stock Exchange.

The main duties of the Audit Committee include the following:

1. To monitor the integrity of the annual and interim reports as well as to review significant financial reporting judgments before submission to the Board and to report to the Board;

2. To review the relationship with the external auditor; and

3. To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

There were two meetings of the Audit Committee held during 2015. Details of the members' attendance record in the Year are set out on page 8 of this annual report. During the Year, the Audit Committee performed the following work (in summary):

CORPORATE GOVERNANCE REPORT

(a) The Audit Committee assisted the Board in assuring the integrity of the Company's financial statements, including reviewed the financial results of the Group for the year ended 31 December 2014 and the interim results for the six months ended 30 June 2015. It evaluated and made recommendations to the Board about the appropriateness of accounting policies and practices, areas of judgment, compliance with Hong Kong Financial Reporting Standards and other legal requirements, and the results of external audit. It reviewed interim and annual financial statements of the Company, reported its work and findings to the Board and made recommendations on specific actions or decision for the Board to consider after each Audit Committee's meeting. Minutes of the Audit Committee's meetings were made available to all Directors for inspection.

(b) The Audit Committee also managed the relationship with the external auditors on behalf of the Board. It made recommendation to the Board on the appointment of the external auditors and the relevant terms of engagement, including remuneration. The Audit Committee was required to review the integrity, independence and objectivity of the external auditors. Also, it examined the external auditors' independence including its engagement of nonaudit services. Based on the review of the Audit Committee, the Board was satisfied that the external auditors were independent. During 2015, there was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

(c) The Audit Committee was required to ensure that the system of internal control of the Group was in place for identifying and managing risks. The Audit Committee had reviewed the effectiveness of internal controls for the Year. Such review covered financial, operational and compliance controls and risk assessment of the Group. The Board was satisfied that the effectiveness of the internal controls of the Group had been properly reviewed by the Audit Committee.

Remuneration Committee

The Company has set up a Remuneration Committee in accordance with the relevant requirements of the CG Code. The Remuneration Committee is chaired by Mr. Lau Chi Kit, and comprising two other members, namely Dr. Donald H. Straszheim and Mr. Yue Man Yiu Matthew. All the members of the Remuneration Committee are Independent Non-executive Directors. The principal responsibilities of the Remuneration Committee include formulating a remuneration policy that guides the employment of senior personnel, recommending to the Board the remuneration of members of the Board who are Independent Non-executive Directors, determining the remuneration packages of the members of the Board who are executive Directors and reviewing and approving performance-based remuneration by reference to the Company's goals, objectives and market practices and ensure no Director involved in deciding his own remuneration.

There was a meeting of the Remuneration Committee held in 2015. Details of the members attendance record in the Year are set out on page 8 of this annual report. Details of the remuneration of each Director for 2015 is set out in the Note 8 to this annual report.

Roles and functions

According to the written terms of reference of the Remuneration Committee, the Remuneration Committee has adopted the model to make recommendations to the Board on the remuneration packages of individual Executive Director(s) and senior management including benefits in kind, pension rights and compensation payment comprising any compensation payable for loss or termination of their office or appointment. It also makes recommendations to the Board on the remuneration of Non-executive Directors. Its principal role is to assist the Board to oversee the policy and structure of the remuneration of the Executive Director(s) of the Company and senior management of the Group.

The Remuneration Committee is provided with sufficient resources to perform its duties. The current duties and responsibilities of the Remuneration Committee are more specifically set out in its latest terms of reference, details of which can be viewed on the website of the Company and the website of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

The following is a summary of work performed by the Remuneration Committee during the Year:

(a) formulating and recommending the policy and structure of the remuneration of the Directors and senior management of the Group to the Board;

(b) assessing individual performance of the Directors and senior management of the Group;

(c) reviewing specific remuneration packages of the Directors and senior management of the Group with reference to the Board's corporate goals and objectives as well as individual performances; and

(d) reviewing and making recommendations to the Board on compensation-related issues.

Principles of remuneration policy

The principles of the Group's remuneration policy:

1. were applied to all Directors and senior management of the Group for the Year and, so far as practicable, shall be applied to them for subsequent years;

2. were sufficiently flexible taking into account future changes in the Company's business environment and remuneration practice;

3. allowed remuneration arrangement to be designed to support the business strategy of the Group and to align with the interests of the Group's shareholders; and

4. aimed at setting appropriate reward levels to reflect the competitiveness in the market in which comparable companies and the Group had been operating during the Year so as to retain individuals with outstanding performance.

Remuneration structure

Under the above remuneration policy, the remuneration package of each Executive Director and senior management of the Group during the Year was structured to include:

(a) an appropriate rate of base compensation for the job of each Executive Director and senior management of the Group;

(b) competitive benefit programs; and

(c) sets of performance measures and targets for performance-related annual and long-term incentive plans based on the appropriate independent advice and/or an assessment of the interests of shareholders of the Company and taking into account an appropriate balance of risk and reward for the Directors and other participants.

The work and findings together with recommendations of the Remuneration Committee were presented to the Board after the Remuneration Committee's meetings. Minutes of the Remuneration Committee's meeting were made available to all the Directors for inspection. No Director or any of his associates was involved in deciding his own remuneration.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee of the Board was established on 29 March 2012 and comprises three Independent Non-executive Directors. The Nomination Committee is chaired by Mr. Lau Chi Kit, and comprising two other members, namely Dr. Donald H. Straszheim and Mr. Yue Man Yiu Matthew. The Nomination Committee meets formally at least once a year.

A Nomination Committee meeting was held during the Year. Details of the members attendance record in the Year are set out on page 8 of this annual report. The following is a summary of the work performed by the Nomination Committee during the Year:

(a) reviewing and evaluating the composition of the Board with reference to certain criteria. These criteria included qualifications required under the Listing Rules or any other relevant laws regarding characteristics and skills of the Directors, professional ethics and integrity, appropriate professional knowledge and industry experience, as well as ability to devote sufficient time to the work of the Board and its committees and to participate in all Board meetings and shareholders' meetings;

(b) reviewing and recommending the re-appointment of the retiring Directors for re-election; and

(c) assessing independence of the Independent Non-executive Directors.

According to the written terms of reference of the Nomination Committee, the major responsibilities of the Nomination Committee include:

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

(c) to assess the independence of the Independent Non-executive Directors; and

(d) to 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 Officer.

Details of the terms of reference of the Nomination Committee can be viewed on the website of the Company and the website of the Stock Exchange.

Board Diversity Policy

The Company has adopted the Board diversity policy ("Policy") in accordance with the requirements set out in code provision of the CG Code. The Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level is essential in achieving a sustainable and balanced development. The Company aims to build and maintain a Board with a diversity of Directors, in terms of skills, experience, knowledge, expertise, culture, independence and age. All Board appointments will be based on merit while taking into account diversity. The Nomination Committee will review the Policy, as appropriate, to ensure the effectiveness of this Policy.

CORPORATE GOVERNANCE REPORT

E. ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Accounts

The Directors acknowledge their responsibility for the preparation of the accounts of the Group and ensure that the accounts are in accordance with statutory requirements and applicable accounting standards. The accounts are prepared on a going concern basis, the members of the Board have selected appropriate accounting policies and apart from those new and amended accounting policies disclosed in the notes to the accounts during the year ended 31 December 2015, have applied them consistently with previous financial periods. The statement of our Auditors about their responsibility on the accounts is included in the Independent Auditors' Report. For the annual reports and accounts, the Company's finance department is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new accounting standards and requirements adopted by the Group have been discussed and approved by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 27 of this annual report.

External Auditors' Remuneration

Prior to the commencement of the audit of the Group's 2015 financial statements, the Audit Committee received written confirmation from the external auditor of its independence and objectivity. The external auditor refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. During the year ended 31 December 2015, the remuneration paid or payable to external auditor for audit services and non-audit services amounted to HK$1,680,000 (2014: HK$1,680,000) and HK$175,000 (2014: Nil), respectively.

Internal Controls

The internal audit department, which is independent to the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls.

The internal control framework also provides for identification and management of risk.

The internal audit department also formulates the internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the management on any key findings and progress of the internal audit process.

The Board, through the internal audit department, has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2015 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

CORPORATE GOVERNANCE REPORT

F. COMMUNICATION WITH SHAREHOLDERS

The AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to question Directors about the Company's performance. The detailed procedures for conducting a poll will be explained at each general meetings. Registered shareholders are notified by post of the AGM. Any registered shareholder is entitled to attend and vote at the AGM, provided that his/her/its shares have been fully paid up and recorded in the register of the members of the Company.

The Group endeavors to disclose relevant information on its activities to its shareholders in an open and timely manner, subject to applicable legal requirements. Communication between the Company and its shareholders is achieved through:

(a) The Company's annual and interim reports which have been enhanced to present a balanced, clear and comprehensive assessment of the Group's position and prospects;

(b) Forum and notices of AGMs and other general meetings and accompanying explanatory materials;

(c) Press releases on major development of the Group;

(d) Disclosures to the Stock Exchange and relevant regulatory bodies;

(e) Response to inquiries from shareholders or media; and

(f) The website of the Company through which the public can access, among other things, corporate announcements, press releases, annual reports, and general corporate information of the Group.

The communication channels between the Company and its shareholders above will be reviewed by the Board on a regular basis to ensure their effectiveness in maintaining an on-going dialogue with shareholders.

Constructive use of AGMs

The Board and the management are committed to the constructive use of the AGM as a forum to meet with shareholders and to hear their views and answer their questions about the Group and its business.

The Chairman and a majority of the other Directors along with key executives and the external auditor attended the 2015 AGM and addressed concerns raised by a number of Shareholders about the resolutions being proposed and the Company's business. The Directors in attendance included those who were chairing the Audit Committee, the Nomination Committee and the Remuneration Committee on the date of the meeting.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company.

(a) Convening of extraordinary general meeting on requisition by shareholders

Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(b) Procedures for putting forward proposals at a Shareholders' meeting

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Cayman Islands Companies Law (as amended from time to time) or the articles of association of the Company. However, Shareholders who wish to move a resolution may request the Company to convene an extraordinary general meeting following the procedures set out above.

Detailed procedures for shareholders to propose a person for election as a Director are available on the Company's website.

(c) Enquiries to the Board

Shareholders may put forward enquiries to the Board in writing to the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the enquiries.

G. INVESTOR RELATIONS

During the Year, there was no significant change in the company's constitutional documents. The Company regards the communication with institutional investors as an important means to enhance the transparency of the Company and to collect views and feedback from institutional investors. The Group keeps shareholders informed of its performance, operations and significant business developments by adopting a transparent and timely corporate disclosure policy which complies with the Listing Rules and provides all shareholders equal access to such information. The Company promotes fair disclosure of information to all investors and care is taken to ensure that analyst briefings and other disclosures made by the Company comply with the Listing Rules' prohibition against selective disclosure of price sensitive information. Shareholders have specific rights to convene extraordinary general meetings under the Company's Articles and Association. In the Year, the Company also communicated with investors through press conferences, news release, and answering enquiries from media. Shareholders, investors and interested parties can make enquiries to the Company through the following means:

By e-mail: info@chitaly.com.hk
Telephone number: (852) 2636-6648
By post: Room 607, 6/F Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui East, Kowloon
Hong Kong
Attention: Public Relationship

MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. TSE Kam Pang, aged 61, is the Chairman and the Chief Executive Officer of the Company. Prior to the founding of the Group, Mr. Tse previously held the position of the Deputy Managing Director in a public listed company in Hong Kong. Mr. Tse has over 20 years of experience in the international trade and China trade business.

Mr. CHANG Chu Fai Johnson Francis, aged 61, has been appointed as the Vice Chairman and redesignated as an Executive Director of the Company with effect from 1 August 2012. Mr. Chang has also resigned as the Chairman and the member of the Remuneration Committee, the member of the Audit Committee and the member of the Nomination Committee of the Company with effect from 3 August 2012. He had been an Independent Non-executive Director from July 2005 to July 2012. He holds a Bachelor's Degree in Commerce from Concordia University in Montreal, Canada since 1976 and a Master's Degree in Business Administration from York University in Toronto, Canada since 1977. He has over thirty-six years of experience in banking, corporate finance, investment and management and has held various executive positions at financial institutions and directorships of listed companies. Mr. Chang is currently the Managing Director of Ceres Consultancy Limited and a registered person under the Securities and Futures Ordinance. He is also an independent non-executive director of Tian An China Investments Company Limited and APAC Resources Limited. He was previously the chairman and an executive director of Trasy Gold Ex Limited, an executive director of China Financial Leasing Group Limited, the deputy chairman and an independent non-executive director of Allied Overseas Limited and the managing director of Ceres Capital Limited. He retired by rotation as an Executive Director of the Company with effect from the conclusion of the 2015 annual general meeting of shareholders of the Company (held on 5 June 2015) and not to offer himself for re-election so as to devote more time on pursuing his other interests. He remains as a senior consultant for the Company.

Mr. TSE Wun Cheung, aged 44, holds a Bachelor Degree of Engineering majoring in Mechanical Engineering from The University of Hong Kong. He has extensive experience in enterprise management mainly focusing in manufacturing and purchasing. Mr. Tse is also a nephew of Mr. Tse Kam Pang, being the Chairman of the Company. He has resigned as an Executive Director of the Company on 1 February 2016 due to his health reasons. He remains as a director of several subsidiaries of the Company.

Mr. CHEN Hao, aged 45, joined the main subsidiary of the Company in China during 2000 and is responsible for the marketing and manufacturing operation of the Company's major subsidiaries in China. He has extensive experience in enterprise management mainly focusing in marketing and manufacturing.

Non-executive Director

Mr. Ma Gary Ming Fai, aged 52, was the Chief Executive Officer and executive director of the Company for the period from 27 August 2005 to 31 July 2012. Mr. Ma is a member of the Institute of Chartered Accountants of Ontario, Canada, and was graduated with a bachelor of commerce degree from the University of Calgary, Canada. He has resigned as a non-executive director of the Company with effect from 1 April 2015 for pursing other interests.

MANAGEMENT PROFILE

Independent Non-executive Directors

Dr. Donald H. STRASZHEIM, aged 74, is the Senior Managing Director and Head of China Research for Evercore ISI, a boutique broker dealer headquartered in New York City, with a specialized research, sales and trading capability primarily serving large global institutional money managers. He holds a B.S., M.S. and Ph.D. from Purdue University, was a visiting Scholar at UCLA's Anderson Graduate School of Management, and a regular writer and commentator on economic, business and financial issues in the global media, and is a recognized China specialist. He has testified before the U.S. Congress on various economic issues. For many years he was Managing Principal of Straszheim Global Advisors, Inc., an economics, business, financial markets and public policy consultancy founded in 2001 with a focus on China, with offices in America and China. From 1985 to 1997, Dr. Straszheim was Chief Economist of Merrill Lynch and Co. ("Merrill Lynch"), in New York, guiding its worldwide economic research effort and serving as its primary economic spokesperson. He has also been the Vice Chairman of Roth Capital Partners, Chief Economist at Wharton Econometrics at the University of Pennsylvania, and Chief Economist of Weyerhaeuser Company.

Mr. LAU Chi Kit, aged 71, retired from The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in December 2000 after more than 35 years of service. Among the major positions in HSBC, he was the assistant general manager and head of Personal Banking Hong Kong and assistant general manager and head of Strategic Implementation, Asia-Pacific Region. He is a fellow of the Hong Kong Institute of Bankers ("Institute"). He was the chairman of the Institute's Executive Committee (from January 1999 to December 2000) and is currently the honorary advisor of the Institute's Executive Committee. He served as a member on a number of committees appointed by the Government of the Hong Kong Special Administration Region, including the Advisory Council on the Environment (from October 1998 to December 2001), the Advisory Committee on Human Resources Development in the Financial Services Sector (from June 2000 to May 2001), the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption (from January 2000 to December 2003), the Environment and Conservation Fund Committee (from August 2000 to October 2006), the Innovation and Technology Fund (Environment) Projects Vetting Committee (from January 2000 to December 2004) and the Law Reform Commission's Privacy Sub-committee (from February 1990 to March 2006). He also served as chairman of the Business Environment Council Limited (from September 1998 to December 2001). Currently, he is an executive director of Chinlink International Holdings Limited (stock code: 997), an independent non-executive director of Highlight China IoT International Limited (stock code: 1682), Century Sunshine Group Holdings Limited (stock code: 509) and Leoch International Technology Limited (stock code: 842).

Mr. YUE Man Yiu Matthew, aged 54, has been the chief financial officer of Ko Shi Wai Holdings Limited since September 2009. He has been a director of China-Link Capital Management Limited since September 2009 and was the chief financial officer of the same firm from August 2005 to August 2009. Mr. Yue is currently an independent non-executive director of two Hong Kong listed companies, namely, Asia Cassava Resources Holdings Limited (Stock Code: 841) and China Suntien Green Energy Corporation Limited (Stock Code: 956). He graduated from the Chinese University of Hong Kong with a bachelor degree in business administration in 1984. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He has extensive experience in financial control, project analysis and management functions and has the related financial expertise.

SENIOR MANAGEMENT

Mr. TSE Sing Chau, aged 43, is the financial controller and Company Secretary of the Company. He Is responsible for the financial management, accounting and company secretarial duties of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor degree in commence. Prior to joining the Group, He has over 15 years financial management, accounting and auditing experience in a Hong Kong listed company and international accounting firms. He joined the Group on 22 June 2015.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2015 to the shareholder of the Company.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

Business review comprising a fair review of the Group's business, description of our principal risks and uncertainties, important events subsequent to the year end, our likely future business developments and our analysis using financial key performance indicators as regards profitability, revenue and gearing ratio changes, have been set out in the section headed "Management Discussion and Analysis" of this annual report. Discussions and information therein forms part of this Report of the Directors.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2015 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 93.

The Board do not recommend the payment of any dividend for the year.

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 94. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 27 and 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 37 and note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK$30.8 million.

CHARITABLE CONTRIBUTIONS

During the Year, the Group did not make any charitable contributions (2014: HK$Nil).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 8% of the total sales for the year and sales to the largest customer included therein amounted to 3%. Purchases from the Group's five largest suppliers accounted for approximately 9% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 4%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a furniture manufacturer in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year under review, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

REPORT OF THE DIRECTORS

The Company provides a fair and safe workplace, promotes diversity to our staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfy needs and requirements of the customers. The Group has established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner.

The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business. We reinforce business partnerships with suppliers and contractors by ongoing communication in a proactive and effective manner so as to ensure quality and timely delivery.

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

The Group's financial conditions, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

The business of the Group is highly dependent on the performance of the PRC furniture market. Furniture market downturn in China could adversely affect the Group's business, results of operations and financial position.

Financial Risk

The financial risk management of the Group are set out in note 36 to the financial statements.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:
Mr. Tse Kam Pang *(Chairman and Chief Executive Officer)*
Mr. Chang Chu Fai Johnson Francis *(Vice Chairman)* (retired on 5 June 2015)
Mr. Tse Wun Cheung (resigned on 1 February 2016)
Mr. Chen Hao

Non-executive Director:
Mr. Ma Gary Ming Fai (resigned on 1 April 2015)

Independent Non-executive Directors:
Dr. Donald H. Straszheim
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew

REPORT OF THE DIRECTORS

Subsequent to the end of the reporting period, on 1 February 2016, Mr. Tse Wun Cheung resigned as an executive Director of the Company due to his health reasons and Mr. Tse Hok Kan was appointed as an executive director of the Company. On 1 March 2016, Mr. Chan Wing Kit has been appointed as an executive Director of the Company.

In accordance with article 87 of the Company's articles of association, one-third of the Directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Details of the Directors to be retired and offered for re-election at the forthcoming annual general meeting are contained in the circular to be despatched to the shareholders of the Company.

The Company has received annual confirmations of independence from Dr. Donald H. Straszheim, Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 18 to 19 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The Directors do not have subsisting service agreements with the Company. Save as disclosed in note 8 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors as are specified on section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap 32). The Company confirms that it has received from each of its independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors to be independent.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) for the benefit of the Directors of the Company is currently in force throughout the year.

The Company has taken out and maintained directors' liability insurance throughout the financial year ended 31 December 2015, which provides appropriate cover for the Directors. During the year ended 31 December 2015, no claims were made against the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 33 to the financial statements headed "Related party transactions" of this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2015.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of the Directors and chief executive in the shares (the "Shares") and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares and underlying shares of the Company:

		Number of Shares and underlying Shares held, capacity and nature of interest			
Name of director	Notes	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Tse Kam Pang	(a), (d)	58,162,769	395,609,042	453,771,811	25.75
Mr. Tse Wun Cheung	(b), (d)	13,671,853	–	13,671,853	0.78
Mr. Chen Hao	(c), (d)	5,119,317	–	5,119,317	0.29
Dr. Donald H. Straszheim	(d)	1,263,547	–	1,263,547	0.07
Mr. Lau Chi Kit	(d)	1,260,000	–	1,260,000	0.07
Mr. Yue Man Yue Matthew	(d)	1,260,000	–	1,260,000	0.07

Notes:

(a) The 51,833,769 Shares are directly beneficially owned by Mr. Tse Kam Pang. Of these 395,609,042 Shares, 185,840,120 Shares are held by Crisana International Inc. ("Crisana") and 209,768,922 Shares are held by Charming Future Holdings Limited ("Charming Future"), both are companies wholly and beneficially owned by Mr. Tse Kam Pang, who is deemed to be interested in the aggregate of 395,609,042 Shares held by these companies.

(b) The 9,171,853 Shares are directly beneficially owned by Mr. Tse Wun Cheung.

(c) The 2,119,317 Shares are directly beneficially owned by Mr. Chen Hao.

(d) These represent Shares to be issued upon exercise of the share options granted to them, details of which are set out in note 28 to the financial statement.

No Directors has any non-beneficial personal equity interests in subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2015, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

OTHER MATTERS RELATING TO THE BOARD

In relation to financial reporting, all Directors acknowledge their responsibilities for preparing the accounts of the Group. The Group has appropriate insurance in place to cover the liabilities of the Directors and senior executives of the Group.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2015, the following persons who were interested in 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	Notes	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
Crisana	(a)	Directly beneficially owned	185,840,120	10.54%
Charming Future	(b)	Directly beneficially owned	209,768,922	11.09%
Great Diamond Developments Limited	(c)	Directly beneficially owned	213,040,000	12.09%

Notes:

(a) Crisana is wholly owned by Mr. Tse Kam Pang, a director of the Company.

(b) Charming Future is wholly owned by Mr. Tse Kam Pang, a director of the Company.

(c) Great Diamond Developments Limited is owned by Mr. Wong Shu Yui (as to 35%), Ms. Chan Siu Ying (as to 25%), Mr. Wong Kai Kei (as to 20%) and Mr. Wong Yim (as to 20%).

Save as disclosed above, as at 31 December 2015, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this Annual Report.

REPORT OF THE DIRECTORS

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2015 was 2,373 (2014: 3,007). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2015, there were 53,484,360 outstanding share options.

Details of the remuneration of the Directors are set out in note 8 to the financial statements. The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2015 were within the following bands:

Bands	**Number of Senior Management**
HK$100,000 to HK$500,000	4
HK$500,000 to HK$1,000,000	–
HK$1,000,000 to HK$1,500,000	–
Total:	4

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 6 to 17.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three Independent Non-executive Directors of the Company. The financial statements of the Group and of the Company for the year ended 31 December 2015 together with the notes attached thereto have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosure has been made.

AUDITORS

Ernst & Young retire and offer themselves for reappointment as auditors of the Company.

ON BEHALF OF THE BOARD

TSE Kam Pang
Chairman, Chief Executive Officer and Executive Director

Hong Kong
30 March 2016

INDEPENDENT AUDITORS' REPORT

Ernst & Young
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1 Tim Mei Avenue
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To the shareholders of Royale Furniture Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Royale Furniture Holdings Limited (the "Company") and its subsidiaries set out on pages 28 to 93, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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, 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

30 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
REVENUE	5	**659,698**	918,154
Cost of sales		**(549,739)**	(753,005)
Gross profit		**109,959**	165,149
Other income and gains	5	**30,385**	32,533
Selling and distribution expenses		**(116,169)**	(192,651)
Administrative expenses		**(112,410)**	(136,577)
Other expenses	6	**–**	(218)
Finance costs	7	**(23,822)**	(30,581)
Share of losses of associates	17	**(767)**	(472)
LOSS BEFORE TAX	6	**(112,824)**	(162,817)
Income tax credit/(expense)	10	**328**	(224)
LOSS FOR THE YEAR		**(112,496)**	(163,041)
Attributable to:			
Owners of the parent		**(97,463)**	(151,646)
Non-controlling interests		**(15,033)**	(11,395)
		(112,496)	(163,041)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK(6.08) cents**	HK(10.88) cents
Diluted		**HK(6.08) cents**	HK(10.88) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
LOSS FOR THE YEAR		**(112,496)**	(163,041)
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value	18	**421**	150
Reclassification adjustments for gains included in the consolidated statement of profit or loss – gain on disposal		**(173)**	–
		248	150
Exchange differences on translation of foreign operations		**(63,347)**	(45,505)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(63,099)**	(45,355)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(63,099)**	(45,355)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(175,595)**	(208,396)
Attributable to:			
Owners of the parent		**(157,212)**	(194,195)
Non-controlling interests		**(18,383)**	(14,201)
		(175,595)	(208,396)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,293,665**	1,407,153
Prepaid land lease payments	14	**189,255**	202,911
Goodwill	15	**67,730**	67,730
Intangible assets	16	**1,025**	897
Investments in associates	17	**6,408**	7,175
Available-for-sale investments	18	**–**	2,141
Total non-current assets		**1,558,083**	1,688,007
CURRENT ASSETS			
Inventories	19	**221,039**	287,496
Trade receivables	20	**21,753**	26,509
Prepayments, deposits and other receivables	21	**93,073**	66,871
Available-for-sale investment	18	**24,285**	25,426
Pledged deposits	22	**48,444**	7,495
Cash and cash equivalents	22	**89,831**	128,355
Total current assets		**498,425**	542,152
CURRENT LIABILITIES			
Trade payables	23	**75,096**	78,076
Other payables and accruals	24	**120,679**	205,053
Interest-bearing bank and other borrowings	25	**250,692**	283,341
Tax payable		**114,146**	112,870
Total current liabilities		**560,613**	679,340
NET CURRENT LIABILITIES		**(62,188)**	(137,188)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,495,895**	1,550,819

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,495,895**	1,550,819
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**199,912**	213,832
Loan from non-controlling interests	30	**38,139**	37,216
Deferred tax liabilities	26	**30,304**	37,435
Deferred government grant		**54,201**	12,233
Total non-current liabilities		**322,556**	300,716
Net assets		**1,173,339**	1,250,103
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**176,238**	139,338
Reserves	29	**929,573**	1,020,536
		1,105,811	1,159,874
Non-controlling interests		**67,528**	90,229
Total equity		**1,173,339**	1,250,103

TSE Kam Pang
Director

CHAN Wing Kit
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

		Attributable to owners of the parent										
	Notes	Share capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2014		139,338	814,404	10,937	131,011	23	6,961	220,246	18,285	1,341,205	104,430	1,445,635
Loss for the year		–	–	–	–	–	–	–	(151,646)	(151,646)	(11,395)	(163,041)
Other comprehensive income for the year:												
Available-for-sale investments:												
Change in fair value of available-for-sale investments, net of tax	18	–	–	–	–	150	–	–	–	150	–	150
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(42,699)	–	(42,699)	(2,806)	(45,505)
Total comprehensive loss for the year		–	–	–	–	150	–	(42,699)	(151,646)	(194,195)	(14,201)	(208,396)
Equity-settled share option expense	28	–	–	12,864	–	–	–	–	–	12,864	–	12,864
Transfer from asset revaluation reserve		–	–	–	(7,051)	–	–	–	7,051	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	555	–	(555)	–	–	–
At 31 December 2014		139,338	814,404*	23,801*	123,960*	173*	7,516*	177,547*	(126,865)*	1,159,874	90,229	1,250,103
At 1 January 2015		139,338	814,404	23,801	123,960	173	7,516	177,547	(126,865)	1,159,874	90,229	1,250,103
Loss for the year		–	–	–	–	–	–	–	(97,463)	(97,463)	(15,033)	(112,496)
Other comprehensive income for the year:												
Available-for-sale investments:												
Change in fair value of available-for-sale investments, net of tax	18	–	–	–	–	421	–	–	–	421	–	421
Reclassification adjustments for gains included in the consolidated statement of profit or loss		–	–	–	–	(173)	–	–	–	(173)	–	(173)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(59,997)	–	(59,997)	(3,350)	(63,347)
Total comprehensive loss for the year		–	–	–	–	248	–	(59,997)	(97,463)	(157,212)	(18,383)	(175,595)
Issue of shares	27	27,800	38,920	–	–	–	–	–	–	66,720	–	66,720
Shares issue expenses	27	–	(1,322)	–	–	–	–	–	–	(1,322)	–	(1,322)
Share options exercised	27	9,100	37,492	(12,740)	–	–	–	–	–	33,852	–	33,852
Equity-settled share option expense	28	–	–	3,899	–	–	–	–	–	3,899	–	3,899
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	(890)	–	–	–	–	890	–	–	–
Dividend paid to a non-controlling shareholder		–	–	–	–	–	–	–	–	–	(4,318)	(4,318)
Transfer from asset revaluation reserve		–	–	–	(33,423)	–	–	–	33,423	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	721	–	(721)	–	–	–
At 31 December 2015		176,238	889,494*	14,070*	90,537*	421*	8,237*	117,550*	(190,736)*	1,105,811	67,528	1,173,339

* These reserve accounts comprise the consolidated reserves of HK$929,573,000 (2014: HK$1,020,536,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(112,824)**	(162,817)
Adjustments for:			
Finance costs	7	**23,822**	30,581
Share of losses of associates	17	**767**	472
Interest income	5	**(281)**	(99)
Gain on disposal of available-for-sale investments	5	**(208)**	–
(Gain)/loss on disposal of items of property, plant and equipment	5	**(21,172)**	218
Depreciation	6	**68,109**	80,367
Recognition of prepaid land lease payments	6	**4,711**	4,929
Amortisation of intangible assets	6	**421**	678
(Reversal of write-down)/write-down of inventories to net realisable value	6	**(4,368)**	13,357
Impairment of trade receivables	6	**658**	4,399
Equity-settled share option expense	28	**3,899**	12,864
Gain on disposal of an associate	5	**–**	(21,563)
		(36,466)	(36,614)
Decrease in inventories		**57,959**	51,253
Decrease in trade receivables		**2,912**	21,356
(Increase)/decrease in prepayments, deposits and other receivables		**(35,705)**	68,236
Decrease in trade payables		**(486)**	(51,754)
Decrease in other payables and accruals		**(37,743)**	(42,330)
Cash (used in)/from operations		**(49,529)**	10,147
Income taxes paid		**(234)**	(130)
Net cash flows (used in)/from operating activities		**(49,763)**	10,017

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Net cash flows (used in)/from operating activities		**(49,763)**	10,017
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**281**	99
Purchases of items of property, plant and equipment	13	**(69,459)**	(151,882)
Additions to intangible assets	16	**(589)**	(291)
Additions to available-for-sale investments		**(23,864)**	(24,982)
Proceeds from disposal of items of property, plant and equipment		**77,378**	2,921
Increase in pledged deposits		**(40,949)**	(7,495)
Proceeds from disposal of available-for-sale investments		**27,602**	–
Proceeds from disposal of an associate		**–**	54,069
Net cash flows used in investing activities		**(29,600)**	(127,561)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	27	**100,572**	–
Share issue expenses	27	**(1,322)**	–
New bank and other loans		**317,510**	257,596
Repayment of bank loans		**(345,440)**	(127,556)
Repayment of loans from a director		**–**	(28,072)
Loan from non-controlling interests		**548**	–
Interest paid		**(20,433)**	(25,374)
Dividends paid to non-controlling shareholders		**(4,318)**	–
Net cash flows from financing activities		**47,117**	76,594
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(32,246)**	(40,950)
Cash and cash equivalents at beginning of year		**128,355**	175,199
Effect of foreign exchange rate changes, net		**(6,278)**	(5,894)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**89,831**	128,355
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of cash flows	22	**89,831**	128,355

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION

Royale Furniture Holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is located at Century Yard, Cricket Square, Hutchins Drive, Grand Cayman, the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the manufacture and sale of furniture.

In the opinion of the directors, the immediate and ultimate holding companies of the Company are Crisana International Inc. and Charming Future Holding Limited, which are incorporated in the British Virgin Islands.

Information about subsidiaries:

Particulars of the Company's principal subsidiaries as of 31 December 2015 are as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Chitaly (BVI) Limited	British Virgin Islands ("BVI")	Hong Kong	Ordinary US$1,000	100	–	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Hong Kong	Ordinary US$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Investment holding and sale of furniture
Wanlibao (Guangzhou) Furniture Limited*	PRC	Mainland China	Paid-up registered US$5,700,000	–	100	Manufacture and sale of furniture
Guangzhou Yufa Furniture Company Limited*	PRC	Mainland China	Paid-up registered HK$50,800,000	–	100	Manufacture and sale of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Macau	Ordinary US$1	–	100	Sale of furniture
Guangzhou Fuli Furniture Company Limited*	PRC	Mainland China	Ordinary HK$65,000,000	–	100	Manufacture and sale of furniture
Realink Investment Group Limited	BVI	Hong Kong	Ordinary US$1	–	100	Investment holding
Sinofull Macao Commercial offshore Limited	Macau	Macau	Ordinary HK$10,000	–	100	Sale of furniture

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries: (Continued)

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Beijing Yufa Furniture Company Limited ("Beijing Yufa")	PRC	Mainland China	Ordinary RMB2,000,000	–	50**	Manufacture and sale of furniture
Beauty City Holdings Limited	BVI	Hong Kong	Ordinary HK$1	–	100	Investment holding
Jiangxi Furun Furniture Company Limited*	PRC	Mainland China	Ordinary US$15,000,000	–	100	Manufacture and sale of furniture
Harbin Royal Furniture Company Limited*	PRC	Mainland China	Ordinary HK$20,000,000	–	100	Sale of furniture
Shenzhen Bokaimai Furniture Company Limited ("Bokaimai")	PRC	Mainland China	Ordinary RMB2,000,000	–	65	Manufacture and sale of furniture
Tianjin Royal Furniture Company Limited	PRC	Mainland China	Ordinary RMB150,000,000	–	55	Manufacture and sale of furniture
Guangzhou Royal Furniture Company Limited*	PRC	Mainland China	Ordinary RMB10,000,000	–	100	Manufacture and sale of furniture

* These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

** The Group has obtained the voting power to appoint and remove the majority of the board of directors of Beijing Yufa based on the assignment of voting rights from the other shareholder of Beijing Yufa to the Group. Hence, Beijing Yufa is controlled by the Group and is consolidated in the financial statements.

The above table lists the principal 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 other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings classified as property, plant and equipment, and equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.1 BASIS OF PREPARATION (Continued)

The Group recorded a consolidated net loss of HK$112,496,000 (2014: HK$163,041,000) for the year ended 31 December 2015 and as at that date, the Group recorded net current liabilities of HK$62,188,000 (2014: HK$137,188,000). In view of these circumstances, the directors of the Company have given consideration to the future liquidity, future performance of the Group, the existing banking facilities and other available sources of finance in assessing whether the Group will have sufficient cash flows to continue as a going concern. Based on management's estimation of the future cash flows of the Group, the directors of the Company believe that the Group has sufficient cash flows in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due. The directors of the Company therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015 (the "Current Year"). A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interests and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

Other than as explained below regarding the impact of (state the applicable standards), the adoption of the above revised standards has had no significant financial effect on these financial statements.

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 *Operating Segments:* Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets:* Clarifies the treatment of the gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- HKAS 24 *Related Party Disclosures:* Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendment that is effective for the current year are as follows:

- HKFRS 3 *Business Combinations:* Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- HKFRS 13 *Fair Value Measurement:* Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. During 2015, the Group performed a high-level assessment of the impact of the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of HKFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of the associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate is included as part of the Group's investment in an associate.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its equity investments at fair value at the end of each reporting period. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the 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 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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, 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 groups 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 assets. An impairment loss is charged to the statement of 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 the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 over 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

(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; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Leasehold improvements	20% – 33%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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 the 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.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 2 to 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition, as available-for-sale financial assets and loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets.

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.

Subsequent measurement

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

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 rate 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 the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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 primarily derecognised when:

- 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 it 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 Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually for financial assets that are individually significant, 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.

The amount of any impairment loss identified 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).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the statement of 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 the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, as appropriate.

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, interest-bearing bank and other borrowings and a loan from non-controlling interests.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Loans and borrowings

After initial recognition, interest-bearing bank and other borrowings, loans from a director and a loan from non-controlling interests are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of 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 statement of profit or loss.

Derecognition of financial liabilities

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

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 the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads and/or, where appropriate, subcontracting charges. 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 consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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 laws) 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 end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

- when the deferred tax liability arises from the initial recognition of goodwill or 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 and associates, 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward 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 carryforward 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 and associates, 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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 by 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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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 and the related installation, 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) maintenance service income, when the underlying services have been rendered;

(c) rental income, on a time proportion basis over the lease terms; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly 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.

Share-based payments

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. 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 the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether 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 payments, or is otherwise beneficial to the employee as measured at the date of modification.

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 loss per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of 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, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 5% of their payroll costs to the central pension scheme. The contributions are charged to the statement of 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 an entity incurs in connection with the borrowing of funds.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company'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 respective 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 end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of 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 measured. The gain or loss arising on 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 difference 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 and an associate are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of a deferred tax liability for withholding taxes

The New PRC Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors in respect of its earnings, from 1 January 2008 or thereafter, shall be subject to withholding corporate income tax at a rate of 5% or 10%. The Group carefully evaluates the necessity of dividend distribution of its PRC subsidiaries out of profits earned after 1 January 2008 and makes decisions on such dividend distributions based on the senior management's judgement. For details, please refer to note 26 to the financial statements.

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 goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was HK$67,730,000 (2014: HK$67,730,000). Further details are given in note 15 to the financial statements.

Write-down of inventories

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and the write-down/write-back of the inventories in the period in which such estimate has been changed. During the year ended 31 December 2015, a reversal of write-down of the inventories of HK$4,368,000 (2014: write down of HK$13,357,000) was recognised in the statement of profit or loss. As at 31 December 2015, the carrying amount of the write-down of the inventories amounted to HK$53,962,000 (2014: HK$58,330,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of trade receivables

The impairment of trade receivables is made based on the assessment of the recoverability of the trade receivables. The identification of doubtful debts requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the receivables and the impairment/write-back of trade receivables in the period in which the estimate has been changed. During the year ended 31 December 2015, impairment losses of HK$658,000 (2014: HK$4,399,000) of trade receivables were recognised in the statement of profit or loss. As at 31 December 2015, the carrying amount of the impairment losses of trade receivables was HK$9,095,000 (2014: HK$8,831,000). Further details are given in note 20 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. The 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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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 cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Share-based payments

The Group measures the costs of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the options, volatility and dividend yield and making assumptions about them. The assumptions and models used for the estimation of the fair value for share-based payments are disclosed in note 28 to the financial statements.

Fair values of financial instruments

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair values of property, plant and equipment

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. As at 31 December 2015, the carrying amounts of the property, plant and equipment approximated to their fair values. For details, refer to note 13 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of home furniture. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single operating segment.

Information about a major customer

No revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year (2014: Nil).

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value-added tax (the "VAT"), and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	2015 HK$'000	2014 HK$'000
Revenue		
Sale of goods	**659,698**	918,154
Other income and gains		
Interest income	**281**	99
Gain on disposal of items of property, plant and equipment	**21,172**	–
Gain on disposal of available-for-sale investments	**208**	–
Gain on disposal of an associate	**–**	21,563
Licence fee income	**–**	707
Sales of scraps	**7,529**	9,904
Others	**1,195**	260
	30,385	32,533

NOTES TO FINANCIAL STATEMENTS

31 December 2015

6. LOSS BEFORE TAX

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

	Notes	2015 HK$'000	2014 HK$'000
Cost of inventories sold		**554,107**	739,648
Depreciation	13	**68,109**	80,367
Recognition of prepaid land lease payments	14	**4,711**	4,929
Amortisation of intangible assets*	16	**421**	678
Research and development costs*		**5,171**	7,534
Minimum lease payments under operating leases		**51,529**	75,216
Auditors' remuneration		**1,855**	1,680
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**139,590**	179,944
Equity-settled share option expense	28	**3,899**	12,864
Pension scheme contributions		**11,789**	14,329
		155,278	207,137
(Reversal of write-down)/write-down of inventories to net realisable value**		**(4,368)**	13,357
Impairment of trade receivables	20	**658**	4,399
Bank interest income	5	**(281)**	–
(Gain)/loss on disposal of items of property, plant and equipment##		**(21,172)**	218

* The amortisation of intangible assets and research and development costs for the year have been included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

** The write-down of inventories to net realisable value has been included in "Cost of sales" on the face of the consolidated statement of profit or loss.

These items have been included in "Other income and gains" and "Other expenses" on the face of the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

7. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest on bank loans:		
Wholly repayable within five years	**15,008**	16,232
Wholly repayable over five years	**–**	191
Interest on a loan from non-controlling interests (note 30)	**2,038**	2,102
Interest on other loans	**6,776**	12,056
	23,822	30,581

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 HK$'000	2014 HK$'000
Fees	**1,880**	2,113
Other emoluments:		
Salaries, allowances and benefits in kind	**4,289**	4,472
Discretionary bonuses	**–**	375
Equity-settled share option expense	**164**	2,088
Pension scheme contributions	**9**	17
	6,342	9,065

NOTES TO FINANCIAL STATEMENTS

31 December 2015

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2015						
Executive directors:						
Mr. Tse Kam Pang	300	1,950	–	–	–	2,250
Mr. Chang Chu Fai, Johnson Francis (retired on 5 June 2015)	129	599	–	–	9	737
Mr. Tse Wun Cheung (resigned on 1 February 2016)	300	975	–	–	–	1,275
Mr. Chen Hao	300	765	–	123	–	1,188
	1,029	4,289	–	123	9	5,450
Non-executive director:						
Mr. Ma Gary Ming Fai (resigned on 1 April 2015)	60	–	–	41	–	101
Independent non-executive directors:						
Dr. Donald H. Straszheim	311	–	–	–	–	311
Mr. Lau Chi Kit	240	–	–	–	–	240
Mr.Yue Man Yiu, Matthew	240	–	–	–	–	240
	791	–	–	–	–	791
	1,880	4,289	–	164	9	6,342

NOTES TO FINANCIAL STATEMENTS

31 December 2015

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2014						
Executive directors:						
Mr. Tse Kam Pang	300	1,800	150	568	–	2,818
Mr. Chang Chu Fai, Johnson Francis	300	1,200	100	359	17	1,976
Mr. Zeng Lejin (resigned on 20 January 2014)	16	32	50	135	–	233
Mr. Tse Wun Cheung	300	900	75	404	–	1,679
Mr. Chen Hao* (appointed on 1 April 2014)	225	540	–	297	–	1,062
	1,141	4,472	375	1,763	17	7,768
Non-executive director:						
Mr. Ma Gary Ming Fai* (appointed on 1 April 2014)	180	–	–	99	–	279
Independent non-executive directors:						
Dr. Donald H. Straszheim	312	–	–	–	–	312
Mr. Lau Chi Kit	240	–	–	113	–	353
Mr.Yue Man Yiu, Matthew	240	–	–	113	–	353
	792	–	–	226	–	1,018
	2,113	4,472	375	2,088	17	9,065

* The remuneration was calculated from the commencement of the appointment as a director.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2014: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the non-director highest paid employee for the year are as follows:

	2015 HK$'000	2014 HK$'000
Fees	–	–
Equity-settled share option expense	–	–
Salaries, allowances and benefits in kind	492	1,005
Pension scheme contributions	–	15
	492	1,020

The number of the non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2015	2014
Nil to HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	–	1
	1	1

10. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2014: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2015 HK$'000	2014 HK$'000
Current – PRC corporate income tax	1,511	2,199
Deferred (note 26)	(1,839)	(1,975)
Total tax (credit)/charge for the year	(328)	224

NOTES TO FINANCIAL STATEMENTS

31 December 2015

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to loss before tax at the applicable rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2015 HK$'000	%	2014 HK$'000	%
Loss before tax	(112,824)		(162,817)	
Tax at the applicable tax rate at 25% (2014: 25%)	(28,206)	25.0	(40,704)	25.0
Lower income tax rates for specific provinces or enacted by local authority	11,201	(9.9)	15,148	(9.3)
Losses attributable to associates	192	(0.2)	118	–
Income not subject to tax	(5,293)	4.7	–	–
Expenses not deductible for tax	3,085	(2.7)	3,315	(2.0)
Tax losses not recognised	18,802	(16.7)	23,877	(14.7)
Tax losses utilised	(109)	0.1	(1,530)	0.9
Tax (credit)/charge at the Group's effective rate	(328)	0.3	224	(0.1)

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$280,421,000 (2014: HK$241,592,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2015.

Under Decree – Law no. 58/99/M, companies in Macau incorporated under that Decree – Law (referred to as the "58/99/M Companies") are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to a Macau resident company. Sinofull Macao Commercial Offshore Limited ("Sinofull"), a subsidiary of the Group, is qualified as a 58/99/M Company.

11. DIVIDENDS

The directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2015 (2014: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,604,264,688 (2014: 1,393,377,017) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company. 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 per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2015 and 2014 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted loss per share are based on:

	2015 **HK$'000**	2014 HK$'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculations	**(97,463)**	(151,646)

	Number of shares	
	2015	2014
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculations	**1,604,264,688**	1,393,377,017

NOTES TO FINANCIAL STATEMENTS

31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2015							
At 31 December 2014 and at 1 January 2015:							
Cost or valuation	701,691	104,607	189,018	61,561	24,012	659,816	1,740,705
Accumulated depreciation	(68,112)	(76,262)	(138,047)	(35,123)	(16,008)	–	(333,552)
Net carrying amount	633,579	28,345	50,971	26,438	8,004	659,816	1,407,153
At 1 January 2015, net of accumulated depreciation	633,579	28,345	50,971	26,438	8,004	659,816	1,407,153
Additions	–	1,030	9,163	8,281	743	50,242	69,459
Transfer	–	990	749	–	–	(1,739)	–
Disposals	(46,402)	(7,283)	(1,902)	(131)	(461)	(27)	(56,206)
Depreciation provided during the year	(34,807)	(10,205)	(10,927)	(10,117)	(2,053)	–	(68,109)
Exchange realignment	(23,332)	(2,487)	(2,940)	(1,057)	(283)	(28,533)	(58,632)
At 31 December 2015, net of accumulated depreciation	529,038	10,390	45,114	23,414	5,950	679,759	1,293,665
At 31 December 2015:							
Cost or valuation	628,909	33,277	177,258	65,538	22,094	679,759	1,606,835
Accumulated depreciation	(99,871)	(22,887)	(132,144)	(42,124)	(16,144)	–	(313,170)
Net carrying amount	529,038	10,390	45,114	23,414	5,950	679,759	1,293,665
Analysis of cost or valuation:							
At cost	–	33,277	177,258	65,538	22,094	679,759	977,926
At valuation	628,909	–	–	–	–	–	628,909
	628,909	33,277	177,258	65,538	22,094	679,759	1,606,835

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2014							
At 31 December 2013 and at 1 January 2014:							
Cost or valuation	626,978	82,490	195,508	61,022	21,070	648,707	1,635,775
Accumulated depreciation	(32,176)	(60,937)	(128,987)	(27,059)	(14,861)	–	(264,020)
Net carrying amount	594,802	21,553	66,521	33,963	6,209	648,707	1,371,755
At 1 January 2014, net of accumulated depreciation	594,802	21,553	66,521	33,963	6,209	648,707	1,371,755
Additions	6,650	9,433	1,105	3,677	3,423	127,594	151,882
Transfer	83,410	14,799	2,906	–	–	(101,115)	–
Disposals	–	(1,350)	(1,646)	(143)	–	–	(3,139)
Depreciation provided during the year	(36,730)	(15,532)	(16,388)	(10,243)	(1,474)	–	(80,367)
Exchange realignment	(14,553)	(558)	(1,527)	(816)	(154)	(15,370)	(32,978)
At 31 December 2014, net of accumulated depreciation	633,579	28,345	50,971	26,438	8,004	659,816	1,407,153
At 31 December 2014:							
Cost or valuation	701,691	104,607	189,018	61,561	24,012	659,816	1,740,705
Accumulated depreciation	(68,112)	(76,262)	(138,047)	(35,123)	(16,008)	–	(333,552)
Net carrying amount	633,579	28,345	50,971	26,438	8,004	659,816	1,407,153
Analysis of cost or valuation:							
At cost	–	104,607	189,018	61,561	24,012	659,816	1,039,014
At valuation	701,691	–	–	–	–	–	701,691
	701,691	104,607	189,018	61,561	24,012	659,816	1,740,705

At 31 December 2015, certain of the Group's buildings and construction in progress with a net carrying value of approximately HK$289,546,000 (2014: HK$355,250,000) and HK$500,866,000 (2014: HK$496,576,000), respectively, were pledged to banks to obtain bank loans (note 25).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

14. PREPAID LAND LEASE PAYMENTS

	2015 HK$'000	2014 HK$'000
Carrying amount at 1 January	**207,840**	218,040
Recognised during the year	**(4,711)**	(4,929)
Exchange realignment	**(9,163)**	(5,271)
Carrying amount at 31 December	**193,966**	207,840
Current portion included in prepayments, deposits and other receivables	**(4,711)**	(4,929)
Non-current portion	**189,255**	202,911

The Group's leasehold lands are situated in Mainland China and are held under the following lease terms:

	2015 HK$'000	2014 HK$'000
Long term lease	**152,496**	163,360
Medium term lease	**36,759**	39,551
	189,255	202,911

All the Group's leasehold land is situated in Mainland China with terms from 38 years to 50 years.

As at 31 December 2015, certain of the Group's land with a net carrying value of approximately HK$61,242,000 (2014: HK$59,558,000), were pledged to banks to obtain bank loans (note 25).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

15. GOODWILL

	2015 HK$'000	2014 HK$'000
At 1 January:		
Cost	**307,213**	307,213
Accumulated impairment	**(239,483)**	(239,483)
Net carrying amount	**67,730**	67,730
At 31 December:		
Cost	**307,213**	307,213
Accumulated impairment	**(239,483)**	(239,483)
Net carrying amount	**67,730**	67,730

Impairment testing of goodwill

Goodwill acquired through business combinations is related to the home furniture cash-generating unit for impairment testing.

The recoverable amount of the home furniture cash-generating unit (the "CGU") was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 17% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%.

Assumptions were used in the value in use calculation of the home furniture cash-generating unit for 31 December 2015 and 31 December 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant unit.

The values assigned to the key assumptions are consistent with external information sources.

NOTES TO FINANCIAL STATEMENTS

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16. INTANGIBLE ASSETS

	Patents and licences	
	2015	2014
	HK$'000	HK$'000
At 1 January:		
Cost	**9,768**	9,713
Accumulated amortisation	**(8,871)**	(8,397)
Net carrying amount	**897**	1,316
Cost at 1 January, net of accumulated amortisation	**897**	1,316
Additions	**589**	291
Amortisation provided during the year	**(421)**	(678)
Exchange realignment	**(40)**	(32)
Cost at 31 December, net of accumulated amortisation	**1,025**	897
At 31 December:		
Cost	**9,921**	9,768
Accumulated amortisation	**(8,896)**	(8,871)
Net carrying amount	**1,025**	897

17. INVESTMENTS IN ASSOCIATES

	2015	2014
	HK$'000	HK$'000
Unlisted shares, at cost	**2,054**	2,054
Share of net assets	**(1,466)**	(699)
Goodwill on acquisition	**6,931**	6,931
	7,519	8,286
Loan to an associate	**14,764**	14,764
Provision for impairment	**(15,875)**	(15,875)
	6,408	7,175

Gold Power International Co., Ltd., which is considered a material associate of the Group, is accounted for using the equity method.

The loan to the associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the loan is considered as a quasi-equity investment in the associate.

NOTES TO FINANCIAL STATEMENTS

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17. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activities
Gold Power International Co., Ltd*	Ordinary shares US$1 each	BVI	40%	Investment holding

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

18. AVAILABLE-FOR-SALE INVESTMENTS

	2015 HK$'000	2014 HK$'000
Non-current		
Listed equity investments, at fair value:		
Hong Kong	**–**	2,141
Current		
Unlisted investment, at fair value	**24,285**	25,426

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$421,000 (2014: HK$150,000). An amount of HK$173,000 (2014: Nil) was reclassified from other comprehensive income to the statement of profit or loss for the year.

The above investments consist of investments in equity securities which were designated as non-current available-for-sale financial assets and have no fixed maturity date or coupon rate. The fair values of listed equity investments are based on quoted market prices.

The unlisted investment has a term of less than one year and is pledged to bank to obtain the bank loan (note 25). As at 31 December 2015, the fair value of the unlisted investment is based on the expected rate of return, credit spread and liquidity spread implied by the purchase price at the issue date.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

19. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	**57,731**	75,489
Work in progress	**40,418**	44,866
Finished goods	**122,890**	167,141
	221,039	287,496

20. TRADE RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables	**30,848**	35,340
Impairment	**(9,095)**	(8,831)
	21,753	26,509

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. 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 large 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 balance. 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 and net of provision, is as follows:

	2015 HK$'000	2014 HK$'000
Within 30 days	**16,533**	22,389
31 to 90 days	**1,140**	2,193
91 to 180 days	**3,834**	1,277
over 180 days	**246**	650
	21,753	26,509

NOTES TO FINANCIAL STATEMENTS

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20. TRADE RECEIVABLES (Continued)

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

	2015 **HK$'000**	2014 HK$'000
At 1 January	**8,831**	4,544
Impairment losses recognised	**658**	4,399
Exchange realignment	**(394)**	(112)
At 31 December	**9,095**	8,831

An aged analysis of the trade receivables that are not individually or collectively considered to be impaired is as follows:

	2015 **HK$'000**	2014 HK$'000
Neither past due nor impaired	**17,673**	24,582
Past due but not impaired	**4,080**	1,927
	21,753	26,509

Receivables that were neither past due nor impaired relate to a large 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, 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. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade receivables are amounts due from the Group's associate of HK$621,000 (2014: HK$647,000) which are repayable on credit terms similar to those offered to the major customers of the Group.

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015	2014
	HK$'000	HK$'000
Prepayments	**60,338**	40,885
Deposits and other receivables	**32,735**	25,986
	93,073	66,871

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2015	2014
	HK$'000	HK$'000
Cash and bank balances	**89,831**	128,355
Time deposits	**48,444**	7,495
	138,275	135,850
Less: Pledged for interest-bearing bank loans (note 25)	**(48,444)**	(7,495)
Cash and cash equivalents	**89,831**	128,355

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$81,926,000 (2014: HK$107,171,000). The RMB 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 Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

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23. TRADE PAYABLES

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

	2015 **HK$'000**	2014 HK$'000
Within 30 days	**43,109**	30,783
31 to 90 days	**20,682**	29,780
91 to 180 days	**8,650**	13,617
181 to 360 days	**953**	1,690
Over 360 days	**1,702**	2,206
	75,096	78,076

The trade payables are non-interest-bearing and are normally settled for a period of 3 months and extendable up to 2 years.

24. OTHER PAYABLES AND ACCRUALS

	2015 **HK$'000**	2014 HK$'000
Advances from customers	**40,149**	52,677
Other payables	**69,612**	131,889
Accruals	**10,918**	20,487
	120,679	205,053

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2015			2014		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**1.7+HIBOR – 6.15**	**2016**	**223,845**	2+HIBOR – 7.8	2015	97,148
Current portion of long term bank loans – secured	**7.04**	**2016**	**26,847**	1.75+HIBOR – 7.04	2015	146,193
Current portion of long term other loans – unsecured	**–**	**2016**	**–**	10	2015	40,000
			250,692			283,341
Non-current						
Bank loans – secured	**7.04**	**2017 – 2019**	**72,486**	1.75+HIBOR – 2.75+HIBOR	2016 – 2024	119,448
Other loan – unsecured	**5 – 10**	**2017**	**127,426**	8 – 10	2016	94,384
			199,912			213,832
			450,604			497,173

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2015 **HK$'000**	2014 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**250,692**	243,341
In the second year	**26,176**	28,807
In the third to fifth years, inclusive	**46,310**	80,766
Beyond five years	**–**	9,875
	323,178	362,789
Analysed into:		
Other borrowings repayable:		
Within one year	**–**	40,000
In the second year	**127,426**	94,384
	127,426	134,384
	450,604	497,173

Notes:

(i) The Group's bank loans are secured by:

(a) mortgages over certain of the Group's buildings and the construction in progress, which had an aggregate carrying value at the end of the reporting period of approximately HK$289,546,000 (2014: HK$355,250,000) and HK$500,866,000 (2014: HK$496,576,000), respectively (note 13);

(b) mortgages over certain of the Group's land, which had an aggregate carrying value at the end of the reporting period of approximately HK$61,242,000 (2014: HK$59,558,000) (note 14);

(c) the pledge of a letter of credit which was pledged by the Group's time deposits amounting to HK$48,444,000 (2014: HK$7,495,000) (note 22); and

(d) the pledge of the Group's current available-for-sale investment with a net carrying value of approximately HK$24,285,000 (2014: HK$25,426,000) (note 18).

(ii) As at 31 December 2015, bank loans and other loans denominated in Hong Kong dollars and RMB amounted to HK$93,480,000 and HK$357,124,000, respectively.

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26. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Revaluation of properties HK$'000	**Fair value adjustments arising from acquisition of a subsidiary** HK$'000	**Total** HK$'000
At 1 January 2014	38,615	795	39,410
Deferred tax credited to the statement of profit or loss during the year (note 10)	(1,957)	(18)	(1,975)
Gross deferred tax liabilities at 31 December 2014 and 1 January 2015	36,658	777	37,435
Deferred tax credited to other comprehensive income	(5,292)	–	(5,292)
Deferred tax credited to the statement of profit or loss during the year (note 10)	(1,821)	(18)	(1,839)
Gross deferred tax liabilities at 31 December 2015	29,545	759	30,304

At 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of HK$1,765,000 (2014: HK$15,215,000) that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$177,000 at 31 December 2015 (2014: HK$1,522,000).

27. SHARE CAPITAL

	2015 **HK$'000**	2014 HK$'000
Authorised: 2,000,000,000 (2014: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid: 1,762,377,017 (2014: 1,393,377,017) ordinary shares of HK$0.10 each	**176,238**	139,338

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27. SHARE CAPITAL (Continued)

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2014, 31 December 2014 and 1 January 2015		1,393,377,017	139,338	814,404	953,742
Issue of shares	(a)	278,000,000	27,800	38,920	66,720
Shares issue expenses		–	–	(1,322)	(1,322)
Share option exercised	(b)	91,000,000	9,100	37,492	46,592
At 31 December 2015		1,762,377,017	176,238	889,494	1,065,732

As at 31 December 2015, the total number of issued ordinary shares of the Company was 1,762,377,017 (2014: 1,393,377,017) shares. During the year, the movements in share capital were as follows:

Notes:

(a) Pursuant to the written resolution passed on 9 May 2015, an aggregate of 278,000,000 shares were allotted and issued at the price of HK$0.24 per share, for a total cash consideration, before expenses, of HK$66,720,000.

(b) The subscription rights attaching to 91,000,000 share options were exercised at the subscription price of HK$0.372 per share (note 28), resulting in the issue of 91,000,000 shares for a total cash consideration, before expenses, of HK$33,852,000. An amount of HK$12,740,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

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28. SHARE OPTION SCHEME

The Company operates a share option scheme in order to advance the interests of the Company and shareholders by enabling the Company to grant options to attract, retain and reward the eligible participants. The Company adopted the share option scheme (the "Scheme") which became effective on 18 May 2012 to replace the old share option scheme which expired on 25 April 2012. The Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option schemes of the Company pursuant to which options may be granted to directors, consultants and/or employees of any company in the Group, shall initially not exceed 10% of the relevant class of securities of the Company in issue excluding, for this purpose, shares issued on exercise of options under the Scheme and any other share option schemes of the Company. Upon the grant of options for shares up to 10% of the relevant class of securities of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under the Scheme when aggregated with securities to be issued under any other share option schemes of the Group may be increased by the board of directors, provided that the shares to be issued upon exercise of all outstanding options do not exceed 30% of the relevant class of securities in issue.

No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital of the Company.

The offer of a grant of share options may be accepted within eight days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

An option may be exercised in accordance with the terms of the Scheme at any time during the option period (and not more than 10 years after the date of grant). The option period will be determined by the board of directors and communicated to each grantee. The board of directors may provide restrictions on the time during which the options may be exercised. There are no performance targets which must be achieved before any of the options can be exercised. However, the board of directors retains its discretion to accelerate the vesting of the fixed term options in the event that certain performance targets are met.

The subscription price for the Company's shares under the Scheme will be a price determined by the board of directors and notified to each grantee. The subscription price will be the highest of: (i) the nominal value of a share; and (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; and (iii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Scheme) and to have taken effect when the acceptance form as described in the Scheme is completed, signed and returned by the grantee with a remittance in favour of the Company of HK$1 by way of consideration for the grant.

NOTES TO FINANCIAL STATEMENTS

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28. SHARE OPTION SCHEME (Continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Name or category of participant	Number of share options: At 1 January 2015	Exercised during the year	Granted during the year	Lapsed during the year	At 31 December 2015	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share
Directors								
Donald H. Straszheim	1,263,547	–	–	–	1,263,547	20/7/2009	20/7/2010 to 19/7/2019	0.410
Chang Chu Fai, J. Francis	947,660	–	–	–	947,660	20/7/2009	20/7/2010 to 19/7/2019	0.410
	4,492,611	–	–	–	4,492,611	7/9/2012	7/9/2013 to 6/7/2022	0.730
	2,000,000	–	–	–	2,000,000	2/1/2013	2/1/2014 to 1/1/2023	0.790
	2,000,000	–	–	–	2,000,000	2/1/2013	2/1/2015 to 1/1/2023	0.790
	9,440,271	–	–	–	9,440,271			
Lau Chi Kit	630,000	–	–	–	630,000	2/1/2013	2/1/2014 to 1/1/2023	0.790
	630,000	–	–	–	630,000	2/1/2013	2/1/2015 to 1/1/2023	0.790
	1,260,000	–	–	–	1,260,000			
Tse Kam Pang	3,164,500	–	–	–	3,164,500	2/1/2013	2/1/2014 to 1/1/2023	0.790
	3,164,500	–	–	–	3,164,500	2/1/2013	2/1/2015 to 1/1/2023	0.790
	6,329,000	–	–	–	6,329,000			
Tse Wun Cheung	2,250,000	–	–	–	2,250,000	2/1/2013	2/1/2014 to 1/1/2023	0.790
	2,250,000	–	–	–	2,250,000	2/1/2013	2/1/2015 to 1/1/2023	0.790
	4,500,000	–	–	–	4,500,000			
Yue Man Yiu, Matthew	630,000	–	–	–	630,000	2/1/2013	2/1/2014 to 1/1/2023	0.790
	630,000	–	–	–	630,000	2/1/2013	2/1/2015 to 1/1/2023	0.790
	1,260,000	–	–	–	1,260,000			
Chen Hao	3,000,000	–	–	–	3,000,000	17/4/2014	17/4/2015 to 16/4/2024	0.372
Ma Gary Ming Fai	1,000,000	–	–	(1,000,000)	–	17/4/2014	17/4/2015 to 16/4/2024	0.372

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28. SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options: At 1 January 2015	Exercised during the year	Granted during the year	Lapsed during the year	At 31 December 2015	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share
Others								
Members of senior management and other employees of the Group	5,180,542	–	–	–	5,180,542	20/7/2009	20/7/2010 to 19/7/2019	0.410
	631,773	–	–	(631,773)	–	14/4/2010	14/10/2011 to 13/4/2020	1.410
	631,773	–	–	(631,773)	–	14/4/2010	14/4/2012 to 13/4/2020	1.410
	10,625,500	–	–	–	10,625,500	2/1/2013	2/1/2014 to 1/1/2023	0.790
	10,625,500	–	–	–	10,625,500	2/1/2013	2/1/2015 to 1/1/2023	0.790
	91,000,000	(91,000,000)	–	–	–	17/4/2014	17/4/2015 to 16/4/2024	0.372
In aggregate	146,747,906	(91,000,000)	–	(2,263,546)	53,484,360			

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

The Group recognised a share option expense of HK$3,899,000 (2014: HK$12,864,000) for the year ended 31 December 2015.

No share options were granted during the year ended 31 December 2015 (2014: HK$13,300,000 (HK$0.14 each)).

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The 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 53,484,360 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 53,484,360 additional ordinary shares of the Company and additional share capital of HK$5,348,000 and share premium of HK$32,572,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 53,484,360 share options outstanding under the Scheme, which represented approximately 3.0% of the Company's shares in issue as at that date.

According to the scheme limit of the 2012 scheme as refreshed on the annual general meeting of the Company held on 6 June 2014, the Company may further grant 139,337,701 (2014: 139,337,701) share options, representing approximately 7.91% (2014: 10%) of the Company's shares in issue as at 31 December 2015.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the financial statements.

Pursuant to the relevant laws and regulations of the PRC, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to the statutory reserve which is restricted as to use.

30. LOAN FROM NON-CONTROLLING INTERESTS

The loan from non-controlling interests is unsecured, bears interest at a rate of 6.15% per annum and will not be repayable in one year. As at the end of the reporting period, included in the outstanding balance with the non-controlling interests was an amount of HK$2,038,000 (2014: HK$2,102,000), which was the accrued interest for the loan.

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office buildings, retail shops and warehouses under operating lease arrangements. Leases for the properties are negotiated for terms ranging from one to ten years.

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 **HK$'000**	2014 HK$'000
Within one year	**15,410**	22,809
In the second to fifth years, inclusive	**24,087**	30,237
After five years	**4,196**	2,172
	43,693	55,218

At the end of the reporting period, the Company did not have any significant operating lease arrangements.

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	2015 **HK$'000**	2014 HK$'000
Authorised, but not contracted for:		
Land and buildings	**10,000**	30,000

NOTES TO FINANCIAL STATEMENTS

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33. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		2015 **HK$'000**	2014 HK$'000
Associates:			
Sales of products	(i)	**1,703**	3,741
Purchases of products	(i)	**–**	1,024
Licence fee income	(ii)	**–**	707

(i) The sales to and purchases from associates were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The licence fees from an associate were determined by the parties through arm's length negotiations with reference to the sales volume of the associate's products.

(b) Compensation of key management personnel of the Group

	2015 **HK$'000**	2014 HK$'000
Short term employee benefits	**6,169**	6,960
Equity-settled share option benefits	**164**	2,088
Pension scheme contributions	**9**	17
Total compensation paid to key management personnel	**6,342**	9,065

Further details of directors' emoluments are included in note 8 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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34. 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:

Financial assets

2015	**Loans and receivables HK$'000**	**Available–for-sale financial assets HK$'000**	**Total HK$'000**
Trade receivables	**21,753**	**–**	**21,753**
Available-for-sale investments	**–**	**24,285**	**24,285**
Financial assets included in prepayments, deposits and other receivables (note 21)	**32,735**	**–**	**32,735**
Pledged deposits	**48,444**	**–**	**48,444**
Cash and cash equivalents	**89,831**	**–**	**89,831**
	192,763	**24,285**	**217,048**

2014	Loans and receivables HK$'000	Available–for-sale financial assets HK$'000	Total HK$'000
Trade receivables	26,509	–	26,509
Available-for-sale investments	–	27,567	27,567
Financial assets included in prepayments, deposits and other receivables (note 21)	25,986	–	25,986
Pledged deposits	7,495	–	7,495
Cash and cash equivalents	128,355	–	128,355
	188,345	27,567	215,912

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34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	2015 Financial liabilities at amortised cost HK$'000	2014 Financial liabilities at amortised cost HK$'000
Trade payables	**75,096**	78,076
Financial liabilities included in other payables and accruals (note 24)	**63,343**	129,218
Interest-bearing bank and other borrowings	**450,604**	497,173
Loan from non-controlling interests	**38,139**	37,216
	627,182	741,683

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, the current portion of restricted bank deposits, trade receivables, notes receivable, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank borrowings, and amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank loans and other borrowings, loans from a director and a loan from non-controlling interests approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the interest-bearing bank and other borrowings as at 31 December 2015 was assessed to be insignificant.

The fair values of the listed equity investments are measured based on quoted prices in active markets (level 1) for identical assets.

The fair value of the unlisted investment which was designated as current available-for-sale investment is based on the expected rate of return, credit spread and liquidity spread implied by the purchase price at the issue date (level 3).

The carrying amounts of the Group's and the Company's financial assets and financial liabilities approximate to their fair values.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

The Group does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Group's exposure to financial risks. Generally, the Group employs a conservative strategy regarding its risk management.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rate, with all other variables held constant, of the Group's loss before tax and the Group's equity.

2015	**Increase/ (decrease) in basis points**	**Increase/ (decrease) in loss before tax HK$'000**	**Increase/ (decrease) in equity* HK$'000**
RMB	**25**	**(181)**	**–**
RMB	**(25)**	**181**	**–**

2014	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax HK$'000	Increase/ (decrease) in equity* HK$'000
RMB	25	(299)	–
RMB	(25)	299	–

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 4.7% (2014: 3.6%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% (2014: 100%) of costs are denominated in the units' functional currencies. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group does not enter into any hedge derivatives.

(iii) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed across different sectors.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iv) Liquidity risk

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

	2015			
	On demand HK$'000	**Less than one year HK$'000**	**Over one year HK$'000**	**Total HK$'000**
Trade payables	**–**	**75,096**	**–**	**75,096**
Other payables and accruals	**–**	**63,343**	**–**	**63,343**
Interest-bearing bank and other borrowings	**–**	**291,100**	**215,600**	**506,700**
Loan from non-controlling interests	**–**	**–**	**44,395**	**44,395**
	–	**429,539**	**259,995**	**689,534**

	2014			
	On demand HK$'000	Less than one year HK$'000	Over one year HK$'000	Total HK$'000
Trade payables	–	78,076	–	78,076
Other payables and accruals	–	129,218	–	129,218
Interest-bearing bank and other borrowings	–	297,897	236,306	534,203
Loan from non-controlling interests	–	–	41,494	41,494
	–	505,191	277,800	782,991

NOTES TO FINANCIAL STATEMENTS

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables and other payables and accruals and loan from non-controlling interests, less cash and cash equivalents. Capital represents equity attributable to owners of the parent.

The gearing ratios as at the end of the reporting periods were as follows:

	2015 **HK$'000**	2014 HK$'000
Trade payables	**75,096**	78,076
Other payables and accruals	**120,679**	205,053
Interest-bearing bank and other borrowings	**450,604**	497,173
Loan from non-controlling interests	**38,139**	37,216
Less: Cash and cash equivalents	**(89,831)**	(128,355)
Net debt	**594,687**	689,163
Equity attributable to owners of the parent	**1,105,811**	1,159,874
Capital and net debt	**1,700,498**	1,849,037
Gearing ratio	**35%**	37%

NOTES TO FINANCIAL STATEMENTS

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37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,152,461**	1,103,292
CURRENT ASSETS		
Prepayments	**223**	361
Cash and cash equivalents	**27**	237
Total current assets	**250**	598
CURRENT LIABILITIES		
Other payables and accruals	**2,100**	4,025
Interest-bearing other borrowings	**–**	40,000
Total current liabilities	**2,100**	44,025
NET CURRENT LIABILITIES	**(1,850)**	(43,427)
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,150,611**	1,059,865
NON-CURRENT LIABILITIES		
Interest-bearing other borrowings	**40,000**	40,000
Total non-current liabilities	**40,000**	40,000
Net assets	**1,110,611**	1,019,865
EQUITY		
Share capital	**176,238**	139,338
Reserves (note)	**934,373**	880,527
Total equity	**1,110,611**	1,019,865

TSE Kam Pang
Director

CHAN Wing Kit
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2015

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2014		814,404	45,144	10,937	7,967	878,452
Loss and total comprehensive loss for the year		–	–	–	(10,789)	(10,789)
Equity-settled share option expense	28	–	–	12,864	–	12,864
At 31 December 2014		814,404	45,144	23,801	(2,822)	880,527
Loss and total comprehensive loss for the year		–	–	–	(12,403)	(12,403)
Equity-settled share option expense	28	–	–	3,899	–	3,899
Issue of shares		38,920	–	–	–	38,920
Shares issue expenses		(1,322)	–	–	–	(1,322)
Share options exercised		37,492	–	(12,740)	–	24,752
Lapse of share options		–	–	(890)	890	–
At 31 December 2015		889,494	45,144	14,070	(14,335)	934,373

* The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation before the listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus under certain circumstances.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

38. APPROVAL OF THE FINANCIAL STATEMENTS

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

FIVE YEAR FINANCIAL 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 financial statements and restated/reclassified as appropriate, is set out below:

RESULTS

	Year ended 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (restated)
REVENUE	**659,698**	918,154	994,032	1,063,736	1,547,318
Gross profit	**109,959**	165,149	96,466	310,361	486,647
(LOSS)/PROFIT BEFORE TAX	**(112,824)**	(162,817)	(465,640)	33,909	255,853
Income tax credit/(expense)	**328**	(224)	(4,475)	(8,895)	(21,537)
(LOSS)/PROFIT FOR THE YEAR	**(112,496)**	(163,041)	(470,115)	25,014	234,316
Attributable to:					
Owners of the parent	**(97,463)**	(151,646)	(455,793)	21,629	228,241
Non-controlling interests	**(15,033)**	(11,395)	(14,322)	3,385	6,075
	(112,496)	(163,041)	(470,115)	25,014	234,316

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2015	2014	2013	2012	2011
TOTAL ASSETS	**2,056,508**	2,230,159	2,425,852	2,778,375	2,296,366
TOTAL LIABILITIES	**(883,169)**	(980,056)	(980,217)	(1,002,295)	(757,964)
NON-CONTROLLING INTERESTS	**(67,528)**	(90,229)	(104,430)	(114,896)	(87,080)
	1,105,811	1,159,874	1,341,205	1,661,184	1,451,322