Bolina Holding Co., Ltd.
航標控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1190

Annual Report

2015

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Xiao Zhiyong *(Chairman and CEO)*
Ms. Ye Xiaohong
Mr. Yang Qingyun
Mr. Lu Jianqing

Independent Non-executive Directors

Mr. Tong Jifeng
Mr. Lin Shimao
Prof. So Wai-man, Raymond

Audit Committee

Mr. Lin Shimao *(Chairman)*
Prof. So Wai-man, Raymond
Mr. Tong Jifeng

Remuneration Committee

Mr. Yang Qingyun *(Chairman)*
Mr. Tong Jifeng
Mr. Lin Shimao

Nomination Committee

Mr. Xiao Zhiyong *(Chairman)*
Mr. Tong Jifeng
Mr. Lin Shimao

Chief Financial Officer and Company Secretary

Mr. Wong Wai Ming *CPA & FRM®*

Auditors

Elite Partners CPA Limited

Legal Advisor

Herbert Smith Freehills

Head Office and Principal Place of Business in PRC

Caikeng Industrial Park
Changtai Economic Development Zone
Changtai County, Fujian Province
People's Republic of China

Place of Business in Hong Kong

Suite 2, 17th Floor
Sino Plaza
255-257 Gloucester Road
Causeway Bay, Hong Kong

Registered Office

Clifton House, 75 Fort Street, P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Principal Share Registrar

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

Branch Share Registrar

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

Stock Code

The Stock Exchange of Hong Kong Limited: 1190

Company Website

www.bolina.cc

Financial Highlights

	2015 **RMB'000**	2014 RMB'000	% change
Revenue	**716,039**	865,613	(17.3)%
Gross profit	**285,492**	376,837	(24.2)%
Profit for the year attributable to owners of the company	**74,087**	165,880	(55.3)%
Earnings per share attributable to ordinary equity holders of the company	**RMB0.07**	RMB0.16	(56.3)%
Gross profit margin	**39.9%**	43.5%	
Net profit margin	**10.1%**	19.2%	

	31 December **2015** **RMB'000**	31 December 2014 RMB'000	
Total assets	**2,296,236**	1,575,057	45.8%
Net current assets	**235,112**	788,168	(70.2)%
Net assets	**1,102,987**	1,000,766	10.2%
Cash and cash equivalents	**909,894**	969,208	(6.1)%
Debt-to-Equity ratio	**53.3%**	35.8%	
Current ratio	**1.24**	2.69	

Bolina's Production Plants

BOLINA is the famous bathroom brand under BOLINA Holdings Co. Ltd. BOLINA Holdings Co. Ltd. is the first ceramic sanitary ware corporation listed on the main Board of Hong Kong stock Exchange, which owns three garden-style industrial parks, four intensively integrated R&D and manufacturing plants for sanitary ware and five fully automatic wide section tunnel kiln production lines each being over one hundred meters long.

Chairman's Statement

On behalf of the board of directors (the "Board") of Bolina Holding Co., Ltd. (the "Company" or "Bolina", and together with its subsidiaries, the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2015.

Financial Results and Dividends

For the year ended 31 December 2015, the Group's revenue amounted to RMB716.0 million, down by 17.3% as compared with last year; net profit for the year amounted to RMB72.3 million, down by 56.4%; and the basic earnings per share was RMB0.07.

Despite the inferior than expected performance caused by the significant slowdown of China's economic growth, the Group envisages that the worst time has already passed whilst future business development of the Group is to certain extent leaning towards positive. Notwithstanding that the Group has maintained very stable financial position since listing and did sustain stable dividend policy in the past, the Board resolved not to distribute a final dividend for the year ended 31 December 2015 in view of the threats and opportunities ahead in 2016. Slowdown of China's economy is on one hand threatening demand for sanitary ware products that impacts businesses of the entire industry but is on the other hand opportunity for significant market players, like Bolina, to acquire and take over players, either vertically or horizontally in the industry chain, who failed to compete for survival under this economic crisis. As such the Board decided to reserve more financial resources to cope with the probable changes in future.

Chairman's Statement

Development of Sanitary Ware Business

The Group's success in business development was based on accumulation of technology competence by providing high quality products through the ODM and OEM services to international brands. With first-hand access to the latest industry information on products, technology and market trend, thereby enabling us to maintain a competitive advantage over many of our competitors. The stable sales to international brands enabled us to balance impact resulted from the revenue plunge of our domestic sales in the PRC. In particular, the robust U.S. economy and its housing market has stabilised the overall revenue drop and notably evened out negative impact of domestic sales. For the year ended 31 December 2015, the revenue from America's market amounted to RMB313.0 million, representing 43.7% of the total revenue.

Leveraging on our successful experience in ODM and OEM businesses, we put in more effort to develop Bolina brand and retail strategy since 2008. Sanitary ware market in China is very fragmented, with low market share by each player, therefore the Group set up different distributors and points of sale throughout China, aiming at capturing more market share in different regions. As at 31 December 2015, the Group established 180 distributors and 445 points of sales. Meanwhile, the Group has set up four subsidiary companies as regional hubs including Tianjin, Wuhan, Foshan and Xi'an, in order to provide better support and supervision to the distributors nearby. The subsidiaries also have their warehouse to provide product source for the distributors and the points of sales nearby, which largely reduced their transportation costs and facilitated business operations.

Apart from relying on distributors to develop retail and local projects, the Group also established relationship with a number of national property developers. Although new buildings in China are still dominated by "unfurnished flats", we expect the proportion of furnished new flats will gradually increase especially in more developed regions.

During the past few years, the government implemented a series of controlling measures to regulate the property market and the prices which led to the recent downturn of the sanitary ware market. Also the slowdown of China's economic growth during the year was much faster than expected. Even though there happened to be some flexi-measures to stimulate housing demand in third-tier and fourth-tier cities, market sentiment became pessimistic since the commencement of the second half in 2015 while consumer spending remained persistently weak. Thus, the Group's own brand sales during the year was significantly impacted with sales of own branded products amounted to RMB386.9 million, down by 24.8% as compared to last

Chairman's Statement

year, and the average selling price of the own branded one-piece toilet per unit fell by 5.0% to RMB495.1 as compared to last year. Amid the unfavourable factors discussed above, the growth potential of sanitary ware industry in China is huge. In spite of the temporary negative impact resulted from the slowing down of domestic economic growth, the Group believes that in the long run when living standard in the PRC gradually improves and urbanisation rate continues to rise in a planned manner, demand for housing will resume and bring sustainable development to the sanitary ware industry.

The transformation of business model by merging traditional industry with the Internet world is new development trend of most corporations. The Group is of no exception and applies the Internet Plus notion to develop new sales channels. On top of traditional sales channels, the Group endeavours to establish sales channels through e-commerce platforms, including Tmall, Gome, JD.com, Suning and Amazon to promote and sell Bolina's own branded products.

With respect to the development of overseas market for our own branded products, the Group and Western Pottery Group ("Western Pottery") entered into a strategic cooperation agreement to develop series of cooperation plans, including mutual business agents, where the Group is the exclusive agent for Western Pottery in China (including Hong Kong and Macau), while Western Pottery is exclusive agent for the Bolina brand in the U.S. market. By entering into the strategic cooperation agreement with Western Pottery, both parties will be able to make full use of the other party's advantages in technology, design and service in their respective home market, to further improve the quality of management, technology and sales, and to bring both brands into the high-end sanitary ware market in the PRC and the U.S..

Advantages in Zhangzhou

Zhangzhou is a coastal city with strategic location in the southernmost of Fujian province with rich port resources. Lean on Haixi Economic Zone, and followed by closer connection between Zhangzhou and Xiamen, more "Made in Zhangzhou" spring up, and become the economic engine of the city's sustained development. In recent years, Zhangzhou's annual GDP has surpassed RMB270 billion. Looking forward, Zhangzhou is planning to enhance the city's overall strength in different industries, to provide more support for listed enterprises, to promote sufficient market-based allocation of resources, and to deepen reform of land resource distribution. As one of the very few listed companies in Zhangzhou, good development trend of the city will certainly bring precious opportunities and rich soil for the Group to bloom.

In 2015 the Group acquired 70% interest in the Yudeyuan project through the acquisition of the equity interest in Fujian Yudeyuan Property Company Limited at a consideration of RMB172.2 million. The project relates to the only large plaza complex in Changtai County of Zhangzhou City. The local government of Zhangzhou has been attaching extra value to the people's livelihood and well-being and has been increasing the deployment of resources in various projects in relation thereto. Yudeyuan's plaza complex is designated as one of the "Top Ten Projects for the People's Welfare" in Zhangzhou, therefore Yudeyuan's plaza complex project has been granted a string of preferential and favourable investment policies by the local government, whereby the investment return for this project is expected to be effectively promoted. The acquisition of Yudeyuan is undoubtly another important business initiative by leveraging on Bolina's distinct advantage in Zhangzhou. Participation in such economic development project supported by the local government also demonstrates Bolina's strength in the Zhangzhou area.

Chairman's Statement

Outlook

Maintaining a relatively high pace of economic growth, implementing supply-side reform to eliminate over-capacity, and mitigating market volatility are expected to be the main thesis of the central government's policies in the coming years. Also the Group anticipates that the optimisation of domestic economic structure will continue in 2016. Behind these are full of threats as reform is like a double-edged sword. As such the Group foresee that there are a lot of challenges ahead in the market but we shall endeavour to transform threats to opportunities and pursue value maximisation for shareholders of the Group.

With respect to property market policies, it is expected that the government will persist in emphasizing the effectiveness of long-term mechanism so as to allow flexibility in applying tightening and stimulating measures. First-tier and second-tier cities remain tightened while third-tier and fourth-tier cities are to be loosened in order to maintain a healthy growth for China property market. Furthermore, according to the release of "National New Urbanization Plan (2014-2020)" released in March 2014, China's development objectives are to optimise urbanization planning and status, to promote rural-urban migration, and to uplift sustainable development capability of cities. The target is to increase the urbanisation rate of regular urban dwellers to approximately 60% by 2020. Vis-à-vis the aforesaid favourable public and social policies, the Group is confident that the long-term development potential of the sanitary ware market in China is huge. However the weakened consumer spending sentiment as a result of the unstable property market caused by the structural adjustments in the economy will cast negative impact on the China sanitary ware industry in the near term.

Being one of the strongest players in the industry, the Group differentiates itself from other sanitary ware manufacturers in China by having a large scale of exporting ODM and OEM products to many well-known international brands, which contributed to the Group's stable revenue growth every year. Sizeable and stable revenue from export business has provided the Group a strong support in particular at times when the domestic economy is volatile. The Group estimates that our strength in ODM and OEM businesses and the revenue contribution of which will continue to be influential in a positive manner.

Riding on the excellence in innovative technology, distinguished product quality, very competitive price positioning, as well as the strategical mindset of uniqueness, the Group is confident to achieve sustainable business development and accomplish good performance. Finally the Board and I would like to thank all our shareholders, management and staff for their support and contribution to the Group.

BOLINA's New Concepts:

Eco-friendly Future People-centric

More and more designers have deeper understanding to the concept of "function is not only for material, but also for spiritual." BOLINA designers not only follow trends and attach importance to environmental characteristic, but also emphasize developing individual talent. BOLINA design is the embodiment of traditional technology, modern thought, individual talent, natural material, modern technology, new material and so on.

The perfect match of lines and surfaces let you enjoy the passion of breaking waves in the sea of arts, pure yet bold tangent line design let you embark on a dream journey on a luxury cruise.

Management Discussion and Analysis

Amid of the slowing down of the global economies, the economy of China has entered into the state of New Normal. Growth rate of which has been evolving from the stage of rapid to relatively high pace. As a result of this macro-economic downturn, outlooks of various industries in the PRC turn to be recessionary. Manufacturing industry is even more difficult whilst the segment of building materials and sanitary wares is undergoing the fiercely cold winter. Enterprises that remain have to struggle for existence and face challenges resulted from the needs of ongoing industry upgrade and reform.

During the past few years, the government implemented a series of controlling measures to regulate the property market and the prices which led to the recent downturn of the sanitary ware market. Revenue for our own branded products was significantly impacted. Fortunately our excellent product quality continued to receive tremendous supports from our renowned international customers. ODM and OEM businesses remained stable during the year and recorded only relatively mild downward adjustment in revenue. As such contribution from ODM and OEM businesses assisted us in evening out the decrease proportion attributable to domestic sales derived from own branded products.

Business Review

In 2015, the Group's revenue reached RMB716.0 million, decreased by 17.3% as compared with last year; and profit attributable to ordinary equity holders of the Company reached RMB74.1 million, down by 55.3% as compared with last year.

Sales Volume

For the year ended 31 December 2015, the Group's sales volume was approximately 4.4 million units. The Group is one of the largest domestic ceramic sanitary ware brands in China's mid-to-high end ceramic sanitary ware market in terms of retail sales.

Production

The Group manufactures ceramic sanitary ware products at its production facilities in Zhangzhou, Fujian Province, the PRC. The Group's annual designed production capacity was 4.9 million units for the year ended 31 December 2015 with 5 production lines, which is one of the largest manufacturers of ceramic sanitary products in the PRC in terms of designed production capacity.

Distribution Network

The market of sanitary ware products in China is fragmented with low market share represented by every single major participant. In view of this, the Group's own branded business in China was mainly carried out through third party distributor model and continued to improve operation capacity and quality of the distribution network, to standardise distribution network governance, to promote differentiated operation innovation, to improve the quality of the network operation team and to optimise the existing network layout with the aim of enhancing sales performance and efficiency. The Group's distribution network, comprising 180 distributors operating 445 points of sales as at 31 December 2015.

The Group has 4 regional hubs in the form of subsidiaries including Tianjin, Wuhan, Foshan and Xi'an as at 31 December 2015, which is very important to promote the overall expansion strategy in domestic market. They provide supporting platforms for business development and service assurance, enable the Group to provide services and supports responding to the market more timely and efficiently for the regions close by the respective hubs.

Management Discussion and Analysis

Business Review (continued)

Business Channel

In addition to the sales through distributors, the Group continued to develop direct sale business with national property developers during the current year. The Group anticipates the direct sale business will become a key revenue stream to the Group when furnished flats become more popular in the future.

Moreover, the Group has further attempted to expand the self-owned brand business in the overseas market and entrusted an agent in U.S. to accelerate the opening of the U.S. market. Furthermore, the Group endeavours to establish sales channels through e-commerce platforms, including Tmall, Gome, JD.com, Suning and Amazon, to promote and sell Bolina's own branded products.

Brand Building

After the Group had become the first listed company in China's ceramic sanitary industry, Bolina was awarded as the Chinese Famous Brand, Top Ten Popular Brand in Sanitary Industry and Outstanding Enterprises, etc. – which have significantly increased Bolina's brand recognition. In 2015, the Group continued to strengthen the brand image of Bolina by reorganising the points of sales and through the appointment of celebrity as our brand ambassador. Furthermore, the direct sale business with national property developers, promotion and sales on e-commerce platforms and promotion of our own brand in overseas market will help to further increase brand awareness and promote the overall expansion strategy of Bolina in both domestic and overseas markets.

Use of Net Proceeds from the Company's Initial Public Offering

The net proceeds from the Company's initial public offering in 2012 after deducting underwriting commissions and related expenses amounted to approximately HK$427.9 million (including the net proceeds from issue of additional shares pursuant to exercise of over-allotment option). Up to 31 December 2015, the Group has used part of the net proceeds pursuant to the initial public offering as follows:

	Actual net proceeds from initial public offering HK$ million	Amount utilised up to 31 December 2015 HK$ million	Balance as at 31 December 2015 HK$ million
Enhancement of sales and marketing force	107.0	107.0	–
Construction of production facilities	192.5	159.5	33.0
Acquisition of sanitary ware manufacturers or facilities	64.2	–	64.2
Research and development	21.4	21.4	–
Working capital and other general corporate use	42.8	42.8	–
Total	427.9	330.7	97.2

Management Discussion and Analysis

Business Review (continued)

Outlook

Notwithstanding that the global economies are full of uncertainties and are filled with pessimistic sentiment, management of the Company believes that the outlook of sanitary wares industry has already stabilised given the central government ratified the needs of implementing flexi-measures to stimulate housing demand in third-tier and fourth-tier cities during the annual meeting of two sessions. This measure will assist the industry to digest the excessive inventories. Also management of the Company believes that prices of sanitary ware products will become more stable in the years ahead as many small participants with no competitive advantage have been eliminated through competitions during the fiercely cold winter of the industry in 2015. As such the industry prospect will gradually improve and become more positive.

As one of the strongest players in the industry, the Group sells own branded products in China through 445 points of sales, as well as having a large scale of exporting ODM and OEM products to renowned international brands. Going forward, the Group will put in more effort to expand the own branded business in China and overseas markets, and strive to create sustainable revenue growth.

Financial Review

For the year ended 31 December 2015, revenue of the Group was RMB716.0 million, down by 17.3% as compared with the year of 2014.

For the year ended 31 December 2015, gross profit of the Group was RMB285.5 million, down by 24.2% as compared with the year of 2014; profit attributable to the ordinary equity holder of the Company amounted to RMB74.1 million, down by 55.3% from RMB165.9 million for the year of 2014.

Revenue

The following table sets out the Group's revenue derived from its different product categories during the years ended 31 December 2015 and 2014:

	Year ended 31 December			
	2015		2014	
	RMB'000	**%**	RMB'000	%
Ceramic sanitary ware products				
One-piece toilets	**257,853**	**36.0**	362,940	42.0
Two-piece toilets (with water tanks)	**299,403**	**41.8**	321,350	37.1
Washbasins and stands	**38,809**	**5.4**	48,144	5.6
Other ceramic products (including urinals and bidets)	**22,391**	**3.1**	28,064	3.2
Sub-total	**618,456**	**86.3**	760,498	87.9
Non-ceramic sanitary products	**97,583**	**13.7**	105,115	12.1
Total	**716,039**	**100.0**	865,613	100.0

Management Discussion and Analysis

Financial Review (continued)

Revenue (continued)

The following tables set out the breakdown of the Group's revenue by sale channels during the years ended 31 December 2015 and 2014:

	Year ended 31 December			
	2015		2014	
	RMB'000	**%**	RMB'000	%
Branded products				
Distributors	**350,726**	**49.0**	496,775	57.4
Direct sales in the PRC	**35,157**	**4.9**	14,347	1.6
Direct sales to overseas customers	**974**	**0.1**	3,046	0.4
Sub-total	**386,857**	**54.0**	514,168	59.4
Non-branded products				
ODM	**276,128**	**38.6**	300,362	34.7
OEM	**53,054**	**7.4**	51,083	5.9
Sub-total	**329,182**	**46.0**	351,445	40.6
Total	**716,039**	**100.0**	865,613	100.0

The following table sets out the breakdown of the revenue derived from the Group's branded products to distributors per category of city in the PRC during the years ended 31 December 2015 and 2014:

	Year ended 31 December			
	2015		2014	
	RMB'000	**%**	RMB'000	%
First-tier cities	**35,621**	**10.1**	43,620	8.7
Second-tier cities	**62,690**	**17.9**	96,693	19.5
Third-tier and other cities	**252,415**	**72.0**	356,462	71.8
Total	**350,726**	**100.0**	496,775	100.0

Management Discussion and Analysis

Financial Review (continued)

Revenue (continued)

Revenue derived from the Group's branded products decreased from RMB514.2 million for the year ended 31 December 2014 to RMB386.9 million for the year ended 31 December 2015. The decrease in revenue was mainly attributable to the continuous slowing down of the macro-economic growth in the PRC as well as the downward trend on selling prices and quantities resulted from the excessive production capacity and inventory level in the building materials and sanitary wares industry.

Revenue derived from the Group's ODM and OEM products decreased from RMB351.4 million for the year ended 31 December 2014 to RMB329.2 million for the year ended 31 December 2015. The decrease was primarily attributable to the decrease in demand resulted form the global economic downturn.

The following tables set out breakdown of the Group's revenue by product category and by business segment during the years ended 31 December 2015 and 2014:

Own branded products

	Year ended 31 December 2015			Year ended 31 December 2014		
Products	**Units**	**Average price RMB**	**Revenue RMB'000**	Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**45,276**	**71.4**	**3,232**	28,159	102.0	2,871
One-piece toilets	**482,675**	**495.1**	**238,958**	662,268	521.3	345,259
Washbasins and stands	**320,773**	**96.7**	**31,026**	363,550	93.5	34,000
Other ceramic products (including urinals and bidets)	**145,818**	**114.6**	**16,705**	217,327	125.7	27,321
Non-ceramic sanitary products	**925,132**	**104.8**	**96,936**	645,548	162.2	104,717
Total	**1,919,674**	**201.5**	**386,857**	1,916,852	268.2	514,168

Management Discussion and Analysis

Financial Review (continued)

Revenue (continued)

ODM products

Products	Year ended 31 December 2015 Units	Average price RMB	Revenue RMB'000	Year ended 31 December 2014 Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**1,868,923**	**134.3**	**250,952**	2,152,429	127.3	273,977
One-piece toilets	**43,190**	**437.5**	**18,895**	38,504	459.2	17,681
Washbasins and stands	**64,156**	**94.0**	**6,028**	111,314	77.5	8,627
Other ceramic products (including urinals and bidets)	**954**	**258.9**	**247**	342	105.3	36
Non-ceramic sanitary products	**1,000**	**6.0**	**6**	2,750	14.9	41
Total	**1,978,223**	**139.6**	**276,128**	2,305,339	130.3	300,362

OEM products

Products	Year ended 31 December 2015 Units	Average price RMB	Revenue RMB'000	Year ended 31 December 2014 Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**408,355**	**110.7**	**45,219**	363,404	122.5	44,502
Washbasins and stands	**23,179**	**75.7**	**1,755**	88,033	62.7	5,517
Other ceramic products (including urinals and bidets)	**21,680**	**250.9**	**5,439**	4,869	145.2	707
Non-ceramic sanitary products	**31,058**	**20.6**	**641**	11,330	31.5	357
Total	**484,272**	**109.6**	**53,054**	467,636	109.2	51,083

Management Discussion and Analysis

Financial Review (continued)

Gross Profit and Gross Profit Margin

Gross profit decreased by RMB91.3 million, or 24.2%, from RMB376.8 million for 2014 to RMB285.5 million for 2015. Overall gross profit margin decreased from 43.5% for 2014 to 39.9% for 2015.

For 2015 and 2014, the Group's gross profit and gross profit margin by business segment was as follows:

	2015		2014	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
Branded products	**178,610**	**46.2**	260,423	50.6
ODM	**92,262**	**33.4**	100,069	33.3
OEM	**14,620**	**27.6**	16,345	32.0
Total	**285,492**	**39.9**	376,837	43.5

Selling and Distribution Expenses

Selling and distribution expenses increased by RMB16.3 million, or 19.6%, from RMB83.4 million for 2014 to RMB99.7 million for 2015. The increase was mainly attributable to the increase in advertising expenses with the aim of enhancing the corporate brand and the strength of our promotion.

Administrative Expenses

Administrative expenses decreased by RMB3.5 million, or 5.1%, from RMB68.8 million for 2014 to RMB65.3 million for 2015. This was mainly attributable to the pursuance of cost control measures so as to trim down operating expenses in view of the tough industry outlook.

Finance Costs

Finance costs represent interest expense on bank and other borrowings of the Group. For the year ended 31 December 2015, finance costs increased by RMB2.3 million, or 13.0%, from RMB17.7 million for 2014 to RMB20.0 million for 2015. This was mainly attributable to the increase in borrowings.

Net Profit and Net Profit Margin

For the year ended 31 December 2015, profit attributable to ordinary equity holders of the Company amounted to RMB74.1 million, representing a decrease of 55.3% as compared to previous year (2014: RMB165.9 million). Net profit margin for the year ended 31 December 2015 was 10.1% (2014: 19.2%) with basic earnings per share of RMB7 cents (2014: RMB16 cents).

Management Discussion and Analysis

Financial Review (continued)

Gearing Ratio

Gearing ratio is calculated by dividing total interest-bearing debts by total equity. The Group's gearing ratios as at 31 December 2015 was 53.3% (31 December 2014: 35.8%). The gearing ratio increased in 2015 primarily due to the increase in amount of interest-bearing bank and other borrowings and the issuance of corporate bonds.

Major Investments and Disposal

On 30 January 2015, the Group entered into the Sale and Purchase Agreement with Fujian Wanhui Investment Company Limited ("**Wanhui Investment**") to acquire the Sale Interest in Yudeyuan at the consideration of RMB172.2 million. Yudeyuan holds the land use right of the Yudeyuan Property. After the Completion, the Group holds 70% of the total equity interest in Yudeyuan and therefore Yudeyuan becomes the subsidiary of the Company. For details of this acquisition, please refer to the announcement made by the Company pursuant to the Listing Rules on 30 January 2015 and the circular pursuant to the Listing Rules issued on 17 February 2015. The acquisition had been resolved and approved by the shareholders in the Extraordinary General Meeting held on 10 March 2015.

Capital Expenditures

The Group's capital expenditures were incurred primarily in connection with purchases of property, plant and equipment and leasehold improvement payments. The Group's capital expenditures were RMB4.5 million for 2015, mainly in connection with the upgrade and improvement of production plant and facilities.

Capital Commitments

Capital commitments of the Group in respect of property, plant and equipment, investment properties and properties under development outstanding at the ended of the reporting period not provided for in the financial statement are as follows:

	2015 **RMB'000**	2014 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**8,757**	10,786
Land use right	**–**	64,500
Investment properties and properties under development	**52,477**	–
	61,234	75,286
Authorised, but not contracted for:		
Property, plant and equipment	**268,484**	82,769
Investment properties and properties under development	**454,300**	–
	784,018	158,055

Management Discussion and Analysis

Financial Review (continued)

Operating Lease Commitments

(a) As lessor

The Group leases out its investment properties under operating lease arrangements on terms ranging from ten to twenty one years and with an option for renewal after the expiry dates, at which time all terms will be renegotiated.

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

	2015 **RMB'000**	2014 RMB'000
With 1 year	**2,328**	–
After 1 year but within 5 years	**23,131**	–
After 5 years	**66,844**	–
	92,303	–

(b) As lessee

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

	2015 **RMB'000**	2014 RMB'000
With 1 year	**10,669**	15,908
After 1 year but within 5 years	**23,818**	36,162
After 5 years	**–**	4,333
	34,487	56,403

Management Discussion and Analysis

Financial Review (continued)

Financial Resources and Liquidity

The Group meets its working capital and other capital requirements primarily from the proceeds from its global offering and the issuance of corporate bonds, net cash generated from its operating activities and borrowings from banks and financial institutions.

As at 31 December 2015, cash and cash equivalents of the Group amounted to RMB909.9 million, which was mainly denominated in RMB and US dollar.

The following table is a condensed summary of the Group's consolidated statement of cash flows during the reporting period indicated:

	2015	2014
	RMB'000	RMB'000
Net cash flows generated from operating activities	**79,459**	173,159
Net cash flows used in investing activities	**(190,209)**	(6,440)
Net cash flows generated from/(used in) financing activities	**40,840**	(83,914)
Net (decrease)/increase in cash and cash equivalents	**(69,910)**	82,805
Cash and cash equivalents at beginning of year	**969,208**	887,855
Effect of foreign exchange rate changes, net	**10,596**	(1,452)
Cash and cash equivalents at end of year	**909,894**	969,208

Net cash flows from operating activities

The Group's net cash generated from operating activities includes funds generated from its operating activities and net cash inflows or outflows resulting from changes in working capital.

In 2015, the Group's net cash flow from operating activities was RMB79.5 million. The decrease was primarily due to the decrease in profit before tax resulted from the revenue drop.

Net cash used in investing activities

In 2015, the Group's net cash used in investing activities was RMB190.2 million, primarily attributable to the payment of acquisition proceeds of a subsidiary.

Management Discussion and Analysis

Financial Review (continued)

Financial Resources and Liquidity (continued)

Net cash from financing activities

In 2015, the Group's net cash generated from financing activities was RMB40.8 million consisting primarily of proceeds from corporate bond issuance but partially offset by the payment of dividends and repayment of bank loans.

Set out below is an analysis of bank and other borrowings of the Group:

	2015	2014
	RMB'000	RMB'000
Secured	**309,133**	272,304
Guaranteed	**70,780**	25,000
Unsecured	**62,454**	60,595
Total	**442,367**	357,899

	2015	2014
	RMB'000	RMB'000
Fixed interest rate	**272,950**	178,078
Floating interest rate	**169,417**	179,821
Total	**442,367**	357,899

The Group intended to meet its obligations for the above borrowings by using internal resources.

As at 31 December 2015, the Group had banking facilities of RMB305.4 million and USD29.0 million. The amount of utilised banking facilities was RMB192.0 million and USD26.3 million. The unutilised banking facilities was RMB113.4 million and USD2.7 million.

Management Discussion and Analysis

Financial Review (continued)

Trade Receivables Turnover Days

Trade receivables primarily comprise amounts to be received from the sale of sanitary ware products to overseas customers. The Group's trade receivables amounted to RMB138.8 million and RMB120.2 million as at 31 December 2015 and 31 December 2014, respectively. The Group's average trade receivable turnover days were 66 days and 44 days for 2015 and 2014 respectively. The increase in trade receivables turnover days was primarily due to the longer credit terms offered to certain overseas customers and the decrease in revenue from domestic customers with advance payment as major payment terms.

Advance payment is normally required from the Group's domestic customers. The trading terms with overseas customers are mainly on credit, the credit period is generally one month, extending up to six months for major customers. Each of the customers has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and have a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management of the Company. Trade receivables are non-interest-bearing.

For 2015 and 2014, there was no material provision for doubtful debts.

Trade Payables Turnover Days

The Group's trade payables primarily arose from the purchases of toilet lids and water tank fittings, packaging material and raw materials for its production activities. During the year ended 31 December 2015, the Group also started procurement of building materials for the construction work of the investment properties and properties under development. The Group had trade payables of RMB233.7 million and RMB94.9 million as at 31 December 2015 and 31 December 2014, respectively. The Group's average payables turnover days were 139 days and 60 days for 2015 and 2014, respectively. The increase in the trade payables turnover days was primarily due to the longer credit terms offered by certain major suppliers and the increase in trade payables resulted from the procurement needs of properties under development.

Inventory Turnover Days

The Group's inventories increased from RMB98.8 million as at 31 December 2014 to RMB104.7 million as at 31 December 2015. The Group's average inventory turnover days were 86 days and 71 days for 2015 and 2014, respectively. The increase in inventory turnover days was primarily due to the delay in despatch of certain orders that resulted in a relatively high level of inventories as at 31 December 2015.

Management Discussion and Analysis

Financial Review (continued)

Bank Borrowings and Other Borrowings

As at 31 December 2015, the balance of the Group's bank loans and other borrowings was RMB442.4 million, up by RMB84.5 million or 23.6% from that of RMB357.9 million as at 31 December 2014.

Certain of the Group's bank loans are secured by: (i) mortgages over the Group's land use right situated in Mainland China, which had aggregate carrying values of approximately RMB11.5 million and RMB11.8 million as at 31 December 2015 and 31 December 2014, respectively; (ii) mortgages over the Group's buildings, which had aggregate carrying values of approximately RMB62.0 million and RMB75.7 million as at 31 December 2015 and 31 December 2014, respectively; (iii) mortgages over the Group's forward letters of credit which amounted to RMB30.1 million and RMB21.8 million as at 31 December 2015 and 31 December 2014, respectively; and (iv) mortgages over the Group's pledged bank balances which amounted to RMB115.5 million and RMB130.0 million at 31 December 2015 and 31 December 2014.

Certain Specific Risks and Uncertainties

Risks of Foreign Exchange

The Group has transactional currency exposure. Such exposure mainly arises from sales transactions denominated in United States dollars. The Group regularly monitors its foreign exchange exposure and will consider the need to hedge against significant foreign currency exposure where appropriate. The Group entered into one foreign currency forward contract in 2015 to hedge against fluctuations in the foreign currency.

Risks of Environmental Protection Regulation

The PRC government has tightened its environmental regulation. Although the Group's current operation falls in line with the requirements, it may be affected and incur additional expenses when the relevant regulatory threshold is further raised in the future.

Risks Related to Expansion of Sales Network

We intend to expand our sales network by further enhancing our existing geographical coverage and penetrating regions in the PRC. As we expand our business to new regions, we may encounter regulatory, personnel, technological and other difficulties that may increase our expenses or delay our ability to start our operations and expand our sales network in compliance with applicable regulatory requirements.

Risks of Employment and Labour

In the future, the Group may be subject to any labour shortages, increased labour cost or other factors affecting labour force, which may affect the Group's business operation and financial condition.

Contingent Liabilities

As at 31 December 2015, neither the Group nor the Company had any significant contingent liabilities.

Events after the Reporting Period

Neither the Group nor the Company had any significant events after the reporting period.

Management Discussion and Analysis

Employees and Remuneration

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme and share options under the share option schemes of the Company. The objective of the Group is to associate the interests of key employees with the performance of the Group and the interests of shareholders, as well as achieving balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Group also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation to employees offered by the Group varies with importance of duties. The more important the duties are, the higher the ratio of incentive bonus of total remuneration will be. This ensures that the Group can recruit, retain and motivate high-caliber employees required for the development of the Group and to avoid offering excess reward.

The emoluments payable to directors are determined with reference to their responsibilities, qualifications, experience and performance. The emoluments include incentive bonus primarily based on the results of the Group and share options granted under the share option schemes of the Company. The Remuneration Committee performs regular review on the emoluments of the directors. No director, or any of his associates and executives, is involved in deciding his/her own emolument.

The Group reviews its remuneration policy annually. As at 31 December 2015, the Group had about 1,869 full-time employees, and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration.

In addition to the basic remuneration, the Group also provided certain non-monetary benefits, such as training, to its employees. For 2015, the Group provided 2,114 hours of training in aggregate for about 154 person-times. The training courses covered areas such as industry development, marketing management, operation and management, laws and regulations, lean management, project management, finance, logistics, information technology, safe production and general working skills. These training further improved the management skills and professional standard of the management of the Group and enhanced the overall quality of the employees to cater to the Group's rapid developments; hence, improving the competitiveness of the Group.

Better Products

With the powerful research and development ability in products and superb product qualities, Bolina has become one of the leading enterprises in sanitary ware industry of China. Based on our guidance for quality, being "customer first, fine workmanship, perfect service", Bolina is committed to making new achievements in "quality, variety and brand", which leads to outstanding quality above international standard.


Bolina

Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Xiao Zhiyong (肖智勇), aged 51, is the chairman, the chief executive officer, and an executive Director of our Company, and one of the co-founders of our Group. Mr. Xiao was appointed to our Board on 19 April 2011. He is responsible for the overall management, strategic planning and business development of our Group. Mr. Xiao co-founded our Group by establishing Zhangzhou Wanjia on 1 March 2002 and since then he has been the chairman of the board and the general manager of Zhangzhou Wanjia. He is also the co-founder and the general manager of Fujian Wanrong, and has been the chairman of the board and the general manager of Zhangzhou Wanhui since its establishment. Mr. Xiao has about 30 years of experience in the ceramics and sanitary ware products industries. Prior to the establishment of our Group, Mr. Xiao served as technician, engineer, deputy director of colour glazed pottery factory and the technology innovation department of 漳州建築瓷廠 (Zhangzhou Construction Ceramics Factory) from August 1985 to July 1997. He also served as deputy director of the engineering department, district manager and deputy general manager of Double Rhomb from July 1997 to January 2002.

Mr. Xiao is an experienced entrepreneur active in social affairs. He holds office as president for several committees and associations, including, 中國建築衛生陶瓷協會 (China Building Ceramic & Sanitary Ware Association) for the third standing committee of its sixth session, 漳州市企業與企業家聯合會 (Zhangzhou Association of Enterprises and Entrepreneurs) for the standing committee of its second session and 漳州市新經濟組織英才協會 (Zhangzhou Elite Association of New Economy Organisations) for the standing committee of its second session. Mr. Xiao is also the executive vice president of 福建水暖衛浴閥門行業協會 (Fujian Bathroom Plumbing Value Industry Association) for the standing committee of its third session, president of Zhangzhou APEC Commerce Association for the standing committee of its first session and honourable president of 漳州青年企業家協會 (Zhangzhou Young Entrepreneurs Association) for the standing committee of its eighth session. In 2008, he was named one of the fifth Zhangzhou Top 10 Outstanding Entrepreneurs (漳州市十大傑出青年企業家) by organisations including the China Communist Youth League (共青團漳州市委員會), and a Fujian Excellent Entrepreneur (福建優秀企業家) jointly by the 漳州市企業與企業家聯合會 (Fujian Association of Enterprises and Entrepreneurs) and Fujian Province Economic and Trade Commission. In March 2013, Mr. Xiao was awarded as the "Person of the Year" at the 9th Chinese Ceramic Pioneers List (第九屆中國陶瓷行業新銳榜). Mr. Xiao is also a deputy to the People's Congress of Fujian Province (福建省人民代表大會代表), a member of the Standing Committee of the People's Congress of Longwen District, Zhangzhou City (漳州市龍文區人民代表大會常委會委員) and a deputy to the People's Congress of Zhangzhou City (漳州市人民代表大會代表). Mr. Xiao completed studies at 上海建築材料工業學院 (Shanghai Construction Material Technical Institute) in July 1985 and a course in business administration at Southeast University (東南大學) in June 2001. Mr. Xiao is a Controlling Shareholder and the spouse of Ms. Ye.

Ms. Ye Xiaohong (葉曉紅), aged 45, is an executive Director of our Company and is responsible for our Group's finance and administrative management. She was appointed to our Board on 25 June 2012. Ms. Ye has over 25 years of experience in the finance and accounting profession. Ms. Ye joined our Group in 2003 and served as the manager of the finance department of Zhangzhou Wanjia from December 2003 and December 2006. Since January 2007, Ms. Ye has been the chief audit supervisor of Zhangzhou Wanjia. Before joining our Group, Ms. Ye was an accountant at 福建興業銀行漳州分行和漳州延北支行 (Zhangzhou Branch and Zhangzhou Yanbei Branch of Fujian Industrial Bank) from August 1990 to June 2002. Ms. Ye graduated from 福建金融管理幹部學院 (Fujian Institute of Financial Administrators) in June 2002 with a diploma in financial management and she has passed the medium level accounting examination as certified by the Ministry of Finance of the PRC. Ms. Ye is the spouse of Mr. Xiao.

Directors and Senior Management

Mr. Yang Qingyun (楊清雲), aged 45, is an executive Director of our Company and is responsible for our Group's human resources management and general operations. He was appointed to our Board on 25 June 2012. Mr. Yang joined our Group in July 2006 and since then he has served as assistant manager and manager of the finance department and general manager assistant of Zhangzhou Wanhui. Prior to joining our Group, Mr. Yang held several positions including accounting supervisor at 長泰聖源織帶有限公司 (Saint Source Webbing Co., Ltd.) from 1993 to 1998, and from 1999 to 2002 he was an accounting supervisor at 長泰鉅高工藝品公司 (Changtai Jugao Crafts Company). Mr. Yang was appointed as an accountant supervisor and deputy factory director at 長泰晶美文具公司 (Changtai Jingmei Stationery Company) from 2002 to 2006.

Mr. Lu Jianqing (陸劍慶), aged 47, was appointed as an executive Director of our Company on 25 June 2012. Mr. Lu has over 25 years of experience in the ceramics and sanitary ware products industries and is primarily responsible for product research and development at our Group. Mr. Lu was appointed as the manager of the technology department of Zhangzhou Wanjia in 2002. Since June 2008, he has served as manager of the technology department of Zhangzhou Wanhui. Mr. Lu started his career as a technician in the Zhangzhou Construction Ceramics Factory from August 1990 to January 1993. He was later employed by 漳州市陶瓷研究所 (Zhangzhou Ceramics Research Institute), a subsidiary of Double Rhomb, and has served as technician, assistant engineer, engineer and later deputy director from February 1993 to September 1999. Mr. Lu was an assistant to the general manager of sales head office for Double Rhomb's headquarters and from October 1999 to April 2000, and an assistant to the general manager for Double Rhomb's ceramics operating company from May 2000 to December 2001. Mr. Lu obtained a bachelor's degree in chemical engineering from Fuzhou University (福州大學) in 1990.

Independent Non-Executive Directors

Mr. Tong Jifeng (同繼鋒), aged 57, was appointed as an independent non-executive Director of our Company on 25 June 2012. Mr. Tong is currently working for China Building Materials Academy (中國建築材料科學研究總院) as the assistant to the president and the manager of the enterprise development department. Mr. Tong has more than 33 years of experience in the ceramics and building materials industries. He was employed by the Xianyang Research and Design Institute of Ceramics (咸陽陶瓷研究設計院) from February 1982 to August 1984, and held positions as its engineer, manager of its experimental factory and president of its design institute from August 1987 to April 1994. From May 1994 to March 2005, Mr. Tong served as senior engineer, director of the high technology ceramic institute and manager of the technology department in the China Building Materials Academy (中國建築材料科學研究總院). He was deputy chief engineer and director of technology management department of China National Building Materials Group Corporation from March 2005 to March 2010.

Mr. Tong currently holds office as a member of the standing committee of 中國建築材料聯合會科技教育委員會 (Science and Education Committee of China Building Material Federation), vice chairman of the ceramics division of 中國硅酸鹽學會 (China Silicate Society) for the standing committee of its sixth session, and chief officer of 建築衛生陶瓷專業委員會 (Professional Committee of Building and Sanitary Ceramics).

Directors and Senior Management

Mr. Tong received his bachelor's degree in July 1982 and a master's degree in inorganic non-metallic materials in July 1987 from South China University of Technology (華南理工大學). He and others have jointly published several articles and books in relation to contemporary construction ceramics, including "現代建築衛生陶瓷工程師手冊" (Handbook of Contemporary Building and Sanitary Ceramics for Engineers), "建材工業技術經濟學" (Building Materials Industry Technology Economics), and "綠色建材與建材綠色化" (Green Building Materials). He was rewarded the first prize in Science and Technology – 綠色奧運建築評估體系 (Assessment System for Green Building of Olympics) by the Beijing government in 2006.

Mr. Lin Shimao (林時茂), aged 52, was appointed as an independent non-executive Director of our Company on 25 June 2012. Mr. Lin has over 33 years experience in the accounting profession and the ceramics industry. He was the head of the finance division of 漳州建築瓷廠 (Zhangzhou Construction Ceramics Factory) from 1982 to 1994. He was the chief financial officer of 福建雙菱集團 (Fujian Double Rhomb Corporation) from 1995 to 2001 and was responsible for its financing and accounting matters. From 2002 to 2011, Mr. Lin was the chief financial officer of 廈門牡丹大酒樓有限公司 (Xiamen Peony Restaurant Co., Ltd) and 廈門牡丹國際大酒店有限公司 (Xiamen Peony International Hotel Co., Ltd.) where he implemented a new set of internal audit procedures and an enterprise resource planning system for the company. Mr. Lin was conferred with the qualification of accountant by the Ministry of Finance of the PRC on 31 December 1993.

Professor So Wai-man, Raymond (蘇偉文), aged 50, Justice of the Peace (JP), was appointed as an independent non-executive Director of our Company on 15 December 2014. Professor So is currently the Dean of School of Business and a Professor of Finance at the Hang Seng Management College. Professor So graduated from the Chinese University of Hong Kong with the BBA and MBA degree in 1988 and 1991 respectively, after which he went to the US for further studies. He graduated from Louisiana State University in 1997 with the PhD degree in Finance and from Tsinghua University in 2010 with the LLB degree. His research interests include international finance, global financial markets and corporate governance. The findings of his research have been presented at international academic conferences and published in reputable internationally refereed journals. Professor So is also the author of seven books. Apart from his academic endeavors, Professor So often gives in-depth analysis to major international media in respect of issues on Hong Kong and global financial market, and his commentaries and articles are often published in major financial media in Hong Kong. Meanwhile, Professor So actively participates in social affairs and serves at various public positions in relevant committees in areas such as housing, capital market and energy sectors.

SENIOR MANAGEMENT

Mr. Wong Wai Ming (黃偉明), aged 38, joined our Group in April 2015 and is the chief financial officer and the company secretary of our Group who is responsible for the supervision of financial management, investor relations and company secretarial matters of our Group. Mr. Wong has over 15 years of experience in financial reporting, investment banking, and auditing and financial risk management in Hong Kong, Guangdong and Beijing. Before joining our Group, Mr. Wong was a chief financial officer of another company in Hong Kong and successfully assisted the company in completing the listing process. He was mainly responsible for the supervision of financial management and investor relations matters. Prior to that, Mr. Wong worked in various international accounting firms and financial institutions as audit professional and financial risk management professional. Mr. Wong graduated from the City University of Hong Kong with a bachelor's degree in business administration in September 2001. Mr. Wong was admitted as a member of the Hong Kong Institution of Certified Public Accountants and certified as a qualified Financial Risk Manager ("FRM®") by the Global Association of Risk Professionals.

Directors and Senior Management

Mr. Zhao Chongkang (趙崇康), aged 58, is an executive deputy general manager of our Group, responsible for the overall management as well as the production operations of our Group. Mr. Zhao joined our Group in August 2007 and he has been a deputy general manager of Zhangzhou Wanhui since September 2010 and was a deputy general manager and the chief engineer of Zhangzhou Wanjia from August 2007 to September 2010. Mr. Zhao has over 33 years of experience in the ceramics and sanitary ware industries. Since 1982 Mr. Zhao has worked for several ceramics factories and companies including the 湖南省陶瓷廠 (Hunan Ceramics Factory), 湖南省建築陶瓷總公司 (Hunan Construction Ceramics Company) and 中國瓷都九州潔具廠 (China Jiuzhou Porcelain Capital Sanitary Wares Factory). Prior to joining our Group, he was a deputy general manager of the Chaozhou Xianghua Donglong Ceramic Co., Ltd. (廣東省潮州市翔華東龍瓷業有限公司) from October 2003 to January 2007. In addition, Mr. Zhao was appointed vice chairman of the national standing committee for the first session for the Chinese magazine "陶瓷" ("Ceramics") in February 2009 and he is a member of the science and education committee of the China Building Materials Federation (中國建築材料聯合會). Mr. Zhao graduated from South China University of Technology (華南理工大學) in January 1982. He is a senior engineer admitted by the Hunan provincial government.

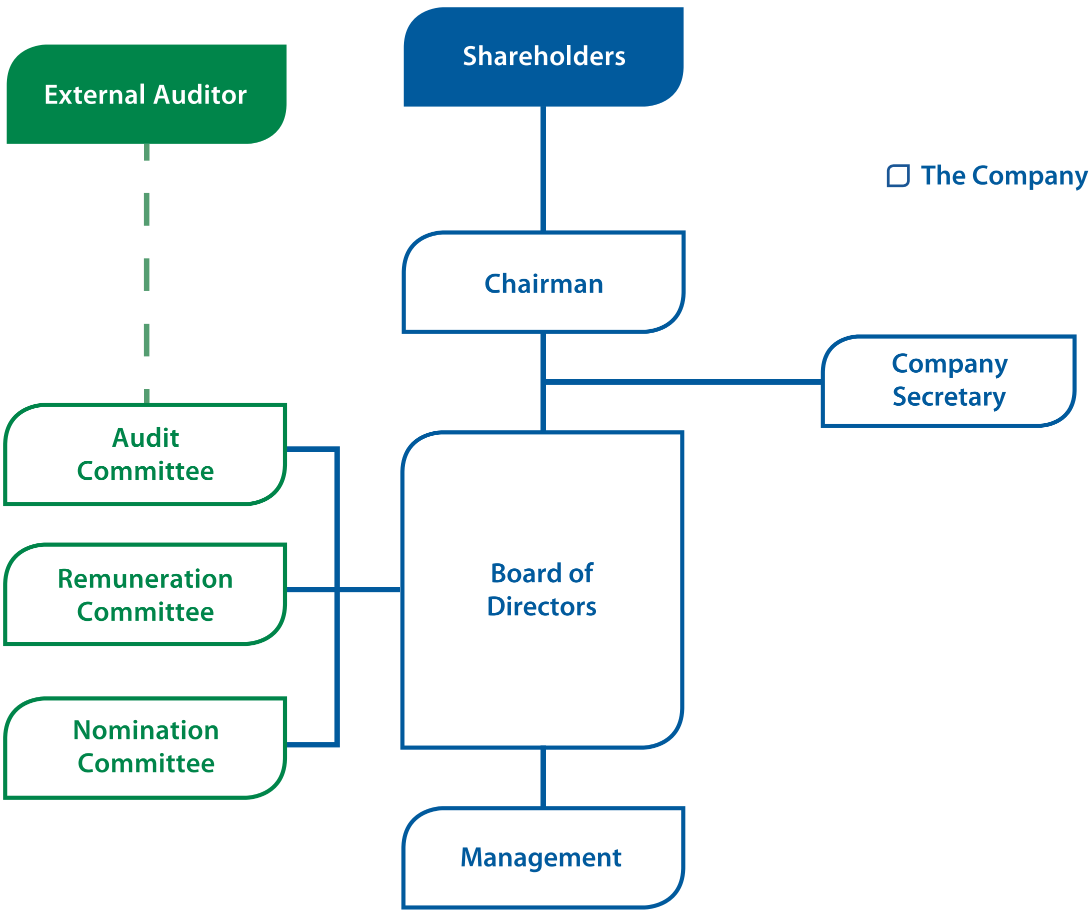
Mr. Chen Zhiqiang (陳志強), aged 46, is a deputy general manager of our Group. Mr. Chen has been employed by our Group since its establishment and has been a deputy general manager of Zhangzhou Wanjia and an assistant general manager of Zhangzhou Wanhui since June 2009. Before joining our Group, Mr. Chen worked for Double Rhomb Sanitary Ware Company as a quality control person-in-charge and molding workshop officer from October 1997 to November 1999. From 1993 to July 1997 and November 1999 to January 2002 he worked for 寶盛漳州建陶有限公司 (Baosheng Zhangzhou Construction Ceramics Limited) as a technician, assistant manager of colour glazed pottery factory and assistant quality control manger. In December 2009, Mr. Chen was appointed as a member of the National Technical Committee on Building and Sanitary Ceramics of Standardization Administration of China (全國建築衛生陶瓷標準化技術委員會). He received his bachelor's degree in engineering from East China Institute of Chemical Technology (華東化工學院), also known as East China University of Science and Technology (華東理工大學), in July 1992. Mr. Chen is also a qualified engineer.

Mr. Zhu Jiaqin (朱甲欽), aged 47, is a deputy general manager of our Group. Since Mr. Zhu joined our Group in May 2002, he has been a manager of the product development department and production department and a deputy general manager of Zhangzhou Wanjia, and the manager of the production department of Zhangzhou Wanhui. Mr. Zhu has over 20 years of experience in the ceramics and sanitary ware industries and had worked for the 湖南省建築陶瓷廠 (Hunan Construction Ceramics Factory), 中國九州潔具廠 (China Jiuzhou Sanitary Wares Factory) and Huida Ceramic Group Co., Ltd. (惠達陶瓷集團股份有限公司). He is a qualified engineer in China.

Corporate Governance Report

The Board of Directors of the Company ("Board") aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the market leader in the ceramic sanitary ware industry. The Group's ultimate goal is to maximize values for its shareholders and customers, and to provide opportunities for employees.

Corporate Governance Framework



CORPORATE GOVERNANCE CODE

The Board of the Company recognizes and appreciates the importance and benefits of good corporate governance practices and has adopted corporate governance and disclosure practices for achieving a higher standard of transparency and accountability.

Upon the listing of the Company on the Hong Kong Stock Exchange on 13 July 2012 ("Listing Date"), the Board adopted the code provisions (the "Code Provisions") of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Group, and has taken steps to comply with the Code wherever appropriate.

The Board is of the view that the Company has complied with the Code Provisions set out in the Code as contained in Appendix 14 to the Listing Rules for the year ended 31 December 2015, except for code provision A.2.1.

Corporate Governance Report

A. BOARD OF DIRECTORS

A1: Responsibilities and Delegation

The Board of Directors, led by the chairman, steers the Group's business direction. It is responsible for formulating the Group's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The senior management of the Company are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

A2: Attendance of Meetings of Board of Directors and General Meeting

The Board held four Board meetings during the year ended 31 December 2015:

(1) During the meeting held on 31 March 2015, the Board considered and approved (a) the annual report of the Group for the year ended 31 December 2014, the annual results announcement of the Group for the year ended 31 December 2014 and relevant authorization in relation thereto; (b) declaration of final dividend of HK$3 cents per share for the year ended 31 December 2014; (c) arrangements for closure of register of members of the Company to determine the entitlement of shareholders to attend and vote at the annual general meeting for 2014 and to determine shareholders who qualify for the proposed final dividend as mentioned above; (d) the holding of the annual general meeting for 2014 on 18 June 2015; (e) the management representation letter to be issued to the Company's auditors; (f) the circular in relation to, inter alia, the annual repurchase mandate and issuance mandate; (g) rotation and re-election of Mr. Lu Jianqing, Mr. Lin Shimao and Prof. So Wai-man, Raymond as directors of the Company, and (h) the independence of the independent non-executive directors of the Company;

(2) During the meeting held on 24 June 2015, the Board conducted (a) the forecast of the business environment in the second half of the year; (b) the review of business strategy of the Group for the second half of the year; and (c) review of the business, financial and operational performance of the Company in the first half of the year;

(3) During the meeting held on 28 August 2015, the Board considered and approved (a) the draft Interim Report and the draft Interim Results Announcement of the Group for the six months ended 30 June 2015, and their publication; (b) that there be no declaration of the interim dividend for the six months period ended 30 June 2015; and

Corporate Governance Report

(4) During the meeting held on 25 November 2015, the Board conducted (a) a review of the business operation of the Group for the second half of 2015; (b) a discussion on the development strategy of the Group for the year of 2016; and (c) discussion on the preparatory work for the annual audit work for the financial year of 2015.

During the reporting period, the attendances of Directors at the Board meetings are as follows:

Name of director	Expected times of attendance during the year (times)	Actual times of attendance	Times of attendance by proxy	Times of absence
Xiao Zhiyong	4	4	0	0
Ye Xiaohong	4	4	0	0
Yang Qingyun	4	4	0	0
Lu Jianqing	4	4	0	0
Tong Jifeng	4	4	0	0
Lin Shimao	4	4	0	0
So Wai-man, Raymond	4	4	0	0

During the year ended 31 December 2015, the Company held its annual general meeting for 2014 and an extraordinary general meeting details of which are as follows:

The Company's annual general meeting was held on 18 June 2015 at TKP Wanchai Conference Centre, 17/F, East Town Building, 41 Lockhart Road, Wan Chai, Hong Kong. The following ordinary resolutions were considered and approved at the meeting; (1) To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31 December 2014; (2) To declare a final dividend for the year ended 31 December 2014; (3) To re-elect Mr. Lu Jianqing, Mr. Lin Shimao and Prof. So Wai-man, Raymond as directors, and to authorize the Board to fix the Directors' Remuneration; (4) To re-appoint Ernst & Young as auditors of the Company and to authorize the Board to fix their Remuneration; (5) To give a general mandate to the directors to repurchase the Company's shares not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company; (6) To give a general mandate to the directors to issue, allot and deal with additional shares of the Company not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company, and (7) To extend the general mandate granted to the directors to issue, allot and deal with additional shares in the capital of the Company by the aggregate nominal amount of shares repurchased by the Company (For details of the relevant resolutions, please refer to the announcement published on HKExnews website of the Hong Kong Stock Exchange on that day). The said General Meeting was chaired by Chairman Xiao Zhiyong. The Directors of the Company, chairman of each board committee, senior management and auditor had attended such meeting and answered queries from the shareholders.

The Company held an extraordinary general meeting on 10 March 2015 at TKP Wanchai Conference Centre, 17/F, East Town Building, 41 Lockhart Road, Wan Chai, Hong Kong. The Sale and Purchase Agreement entered into between Fujian Fuxiang Property Company Limited and Fujian Wanhui Investment Company Limited, and the terms and the transactions thereunder were approved, confirmed and ratified. For more details, please refer to the announcement of the Company dated 10 March 2015.

Corporate Governance Report

During the reporting period, the attendances of Directors at the general meeting are as follows:

Name of director	Mandatory times of attendance during the year	Actual times of attendance
Xiao Zhiyong	2	2
Ye Xiaohong	2	2
Yang Qingyun	2	2
Lu Jianqing	2	2
Tong Jifeng	2	2
Lin Shimao	2	2
So Wai-man, Raymond	2	2

A3: Chairman and Chief Executive Officer

Code provision A.2.1 of the Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Xiao Zhiyong currently holds the offices of Chairman and Chief Executive Officer of the Company. Mr. Xiao is the founder of the Group and has about 30 years of experience in sanitary ware products industry. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. Xiao provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business strategies and decisions.

The Board also considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

A4: Board Composition

The Board currently comprises 7 directors, including 4 executive directors and 3 independent non-executive directors ("INEDs"). Except for the appointment on 15 December 2014 of Prof. So Wai-man, Raymond and resignation on 12 January 2015 of Mr. Leung Ka Man (both as an independent non-executive Director of the Company), the composition of the Board has not undergone any changes since the listing of the Company on the Hong Kong Stock Exchange.

Details of the biographies of the directors are given under the section "Directors and Senior Management" of this Annual Report. Except that Ms. Ye is the spouse of Mr. Xiao as disclosed in this Annual Report, none of the directors or senior management is related to each other.

The INEDs, play an important role on the Board. Accounting for a significant portion of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of the shareholders of the Company and the Group as a whole.

Corporate Governance Report

On 31 March 2015 and 28 August 2015, the Audit Committee of the Company met for two times. All the three members of the Audit Committee are independent non-executive Directors. They attended the meetings and delivered their opinions on relevant matters in both capacities, i.e. as members of the Audit Committee and as independent non-executive Directors.

During the reporting period, all independent non-executive Directors complied with the laws, regulations and the Articles of Association, and had sufficient time and energy to perform their duties; when making an independent judgment, the independent non-executive Directors were not affected by the substantial shareholders of the Company or any other entity or individual having an interest in the Company; and they endeavored to protect the interests of the Company and all minority shareholders.

The independent non-executive Directors actively participated in all the meetings of the Board. Among the members of the Audit Committee, the Nomination Committee and the Remuneration Committee, the Company has appointed the requisite number of independent non-executive Directors as required by their respective listing rules.

During the reporting period, no independent non-executive Directors raised any objections to any resolution of the Board or of any specialized committee.

During the year ended 31 December 2015, the Board at all times met the listing requirements of having at least 3 INEDs, and that at least one of them had appropriate professional qualifications in accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED on his independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

A5: Appointment, Re-election and Removal

Each director is engaged for a term of three years and is subject to re-election in accordance with the Company's Articles of Association.

According to the Company's Articles of Association, one-third of the directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years. The above provision complies with the code provision A.4.2 of the Code, which stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In addition, any new director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting after appointment, and any new director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting of the Company. The retiring directors are eligible for re-election by the shareholders at the respective general meetings.

At the forthcoming annual general meeting of the Company to be held on 31 May 2016 (the "2015 AGM"), Ms. Ye Xiaohong, Mr. Yang Qingyun and Mr. Tong Jifeng shall retire by rotation pursuant to the Company's Articles of Association. All the above three retiring directors, being eligible, will offer themselves for re-election at the 2015 AGM. The Board recommended their re-appointment. The Company's circular dated 29 April 2016 contains detailed information of the above three directors as required by the Listing Rules.

In addition, the Company's Articles of Association also contain provisions on the procedures and process of appointment and removal of directors.

Corporate Governance Report

A6: Remuneration Policy and Long-Term Incentive Plan

To attract and retain talent and caliber, the Group provides competitive remuneration packages to its executive directors and senior management. These comprise base monthly salary and bonuses. The remuneration payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The remuneration package of executives is designed so that a proportion is structured to link rewards to corporate and individual performance, and to give incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The non-executive directors' remuneration relates to the time commitment and responsibilities. They receive fees which comprise the directors' fee, which is usually paid monthly.

The fees and any other reimbursement or remuneration payable to the Directors are set out in note 8 to the financial statements. Emoluments of the senior management (by band) are set out in note 39(c) to the financial statements.

B. THE BOARD COMMITTEES

B1: Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee is governed by its terms of reference, which have been adopted by the Board on 25 June 2012 pursuant to the Code. The terms of reference have been available on the Group's website at www.bolina.cc and on HKEx's website at http://www.hkex.com.hk since 13 July 2012.

The Audit Committee currently comprises 3 members, namely Mr. Lin Shimao, Prof. So Wai-man, Raymond and Mr. Tong Jifeng. Prof. So Wai-man, Raymond was appointed as a member of Audit Committee on 15 December 2014, Mr. Leung Ka Man had resigned as a member of Audit Committee on 12 January 2015. Mr. Lin Shimao is the chairman of the Audit Committee. The Audit Committee meets at least twice a year to review the Group's results.

Corporate Governance Report

During the reporting period, the Audit Committee met for two times:

Date of meeting	Matters considered at the meeting
31 March 2015	(1) reviewed the report to the Audit Committee arising from its auditing of annual results of the Group for the year ended 31 December 2014, as prepared by the auditors of the Company, Ernst & Young; (2) reviewed and approved the draft audited consolidated financial statements of the Group, draft audited annual results announcement and draft annual report for the year ended 31 December 2014, and recommended the same to the Board of the Company; (3) reviewed and evaluated the internal control system of the Company, and (4) approved the auditors' fee and discussed and re-appointed Ernst & Young as the auditors of the Group for 2015, and recommend the same to the Board of the Company.
28 August 2015	Reviewed and approved the draft consolidated interim results of the Group for the six months ended 30 June 2015 and recommend the same to the Board of the Company.

Attendance of the members at the meetings of the Audit Committee:

Name of committee member	Times of attendance/ Expected times of attendance
Lin Shimao	2/2
Tong Jifeng	2/2
So Wai-man, Raymond	2/2

Overview of Audit Work of the Company:

The audit on the Company conducted by Ernst & Young in 2015 mainly consisted of the annual audit for 2014. During the annual audit, Ernst & Young carried out audit on assets, liabilities, equity as well as profit or loss items. In addition, they also carried out the same procedures on subsidiaries incorporated in the consolidated statements.

In order to successfully complete the audit on the 2014 Annual Financial Report of the Company and supervise Ernst & Young to issue relevant audit reports within the agreed period, the Audit Committee discussed with Ernst & Young about the audit plan, audit progress, audit findings as well as the review of the audit report.

On 31 March 2015, Ernst & Young issued the audit reports with an unqualified audit opinion within the scheduled time.

Corporate Governance Report

In addition, the Audit Committee conducted an annual appraisal of Ernst & Young. The Audit Committee is also responsible for reviewing the independence of Ernst & Young. The Audit Committee has received a written confirmation from Ernst & Young of their independence and objectivity prior to the audit of the Company's 2014 financial statements. Ernst & Young shall not offer any other non-audit service unless otherwise approved to ensure that their judgment and independence in the audit are not undermined. The Audit Committee of the Company was of the opinion that Ernst & Young conducted its independent audit on the 2014 Annual Financial Report of the Company in a diligent, fair and objective manner, and successfully completed the annual audit work.

B2: Remuneration Committee

The Remuneration Committee was established in June 2012 pursuant to the requirements of the Code. It meets from time to time to make recommendations to the Board on the Group's policy and structure for all remuneration of directors, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee is governed by its terms of reference, which have been adopted by the Board on 25 June 2012 pursuant to the Code. The terms of reference have been available on the Group's website at www.bolina.cc and on HKEx's website at http://www.hkex.com.hk since 13 July 2012.

The Remuneration Committee now consists of 3 members (namely, Mr. Yang Qingyun (Chairman), Mr. Tong Jifeng and Mr. Lin Shimao), the majority of whom are INEDs, namely, Mr. Tong Jifeng and Mr. Lin Shimao.

The Remuneration Committee held two meetings during the reporting period:

Date of meeting	Matters considered at the meeting
31 March 2015	(1) reviewed and discussed the Company's policy and structure for the remuneration of directors and senior management of the Company, and (2) reviewed the remuneration for the directors of the Company for the year 2014 and the remuneration and bonus policy for the year 2015.
28 August 2015	reviewed and discussed (1) the remuneration system of the Company for directors and senior management; and (2) the implementation of relevant remuneration policies of the Company for the six months period ended 30 June 2015.

Corporate Governance Report

Attendance of the members at the meetings of the Remuneration Committee:

Name of committee member	Times of attendance/ Expected times of attendance
Yang Qingyun	2/2
Tong Jifeng	2/2
Lin Shimao	2/2

B3: Nomination Committee

The Nomination Committee was established in June 2012 pursuant to the requirements of the Code. It meets from time to time to consider matters regarding the nomination and/or appointment or re-appointment of director(s).

The Nomination Committee is governed by its terms of reference, which have been adopted by the Board on 25 June 2012 pursuant to the Code. The terms of reference have been available on the Group's website at www.bolina.cc and on HKEx's website at http://www.hkex.com.hk since 13 July 2012.

The Nomination Committee now consists of 3 members (namely, Mr. Xiao Zhiyong (Chairman), Mr. Tong Jifeng and Mr. Lin Shimao), the majority of whom are INEDs, namely, Mr. Tong Jifeng and Mr. Lin Shimao.

The Nomination Committee held two meetings during the reporting period:

Date of meeting	Matters considered at the meeting
31 March 2015	(1) reviewed and discussed the structure, size and composition of the Board of Directors of the Company; (2) reviewed and assessed the independence of the independent non-executive directors of the Company; (3) reviewed and recommended to the Board the re-election of Mr. Lu Jianqing, Mr. Lin Shimao and Prof. So Wai-man, Raymond as directors of the Company.
28 August 2015	reviewed and discussed (1) the composition of the board of directors of the Company; (2) the operation of nomination system for directors of the Company; and (3) the implementation of relevant nomination policies of the Company for the six months period ended 30 June 2015.

Corporate Governance Report

Attendance of the members at the meetings of the Nomination Committee:

Name of committee member	Times of attendance/ Expected times of attendance
Xiao Zhiyong	2/2
Tong Jifeng	2/2
Lin Shimao	2/2

The Company values the diversity of the members of the Board. The Company has adopted a board diversity policy under which the Nomination Committee under the Board shall be responsible for reviewing the structure, size and composition (including but not limited to the skills, knowledge and experience of the Directors) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes of the Board. Among the seven members of the Board, one director is female, two executive directors have been in the ceramic and sanitary ware products industry for over 20 years and thus have very rich industrial experiences, and the independent non-executive directors, with expertise in the areas of ceramics industry, accounting and finance, are in a good position to provide the Company with professional advice in various areas.

C. ACCOUNTS AND INTERNAL CONTROL

The Board is also responsible for the integrity of financial information. The directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

C1: Financial Reporting

Executive Directors are provided with a wide range of reports on daily, weekly and monthly intervals and are fully aware of the Company's latest performance, position and prospects. Non-executive Directors are provided with monthly financial updates to keep them apprised of the latest financial situation of the Company.

All Directors are provided with financial information and relevant reviews and updates on the Group's performance each time they are required to approve financial or other matters. Where necessary, explanation and additional information are provided in a timely manner to enable the Board to make informed assessment. The Board is assisted by a group of dedicated employees who are qualified in the fields of accounting, law and public companies' disclosure requirements and who ensure that the information presented is balanced, clear and understandable.

The Directors acknowledge their responsibility for the preparation of financial statements that give a true and fair view of the Group's state of affairs, results and cash flow for the year. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Corporate Governance Report

The Directors ensure that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. In preparing the financial statements for the year ended 31 December 2015, the Directors:

1. approved the adoption of all applicable Hong Kong Financial Reporting Standards;

2. selected and applied consistently appropriate accounting policies;

3. made judgments and estimates that were prudent and reasonable; and

4. prepared the financial statements on the basis that the Company would continue as a going concern.

The Independent Auditors' Report from pages 57 to 58 of this Annual Report sets out the reporting responsibilities of Elite Partners CPA Limited, the external auditors of the Company.

C2: Internal Control

The Board is responsible for ensuring that an effective internal control system is maintained within the Group. The directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's system of internal control. During the year under review, the directors have reviewed the effectiveness of the internal control system of the Group.

The Group has adopted a set of internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units.

Through the Audit Committee, the Board has conducted reviews 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, fraud indicators and risk management process, and considered the Group's internal control system effective and adequate. There were no suspected fraudulent irregularities or significant areas of concern identified during the period that might affect Shareholders.

The Audit Committee has reviewed the adequacy of resources, qualifications, experience and training programs of the Group's accounting and financial reporting staffs and considered that the staffing is adequate and the staffs are competent to carry out their roles and responsibilities.

Corporate Governance Report

D. INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Group is committed to enhancing its corporate transparency and maintaining close communication with investors, the media and the public. Latest information of the Group including financial reports, announcements, press releases and presentations are available on its website in a timely manner.

The Group values the importance of maintaining a two-way communication with the investment community. Chairman of the Company has been taking the lead and involved in the investors relations activities of the Company. During the year of 2015, the Group maintains regular contact with research analysts, investors and the media through various channels such as one-on-one meetings, plant visits, luncheons and teleconferences. Analyst meetings and press conferences were also held after results announcements. In order to keep overseas investors abreast of its results performance and business development, the Group also actively participated in various international investment forums or non-deal road shows.

There was no significant changes in the Company's constitutional documents from the Listing Date to 31 December 2015.

All published information, including all the statutory announcements, press releases and event calendars, is and will be promptly posted on the Group's website at www.bolina.cc. Viewers can also send enquiries to the Board or senior management and/or proposals to be put forward at shareholders' meeting by email at ir@bolina.cc or directly by raising questions at the annual general meeting of the Company.

According to the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

E. DISCLOSURE OF OTHER INFORMATION

E1: Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group. All directors have confirmed, following specific enquiry by the Group, that throughout year 2015, they complied with the required standard set out in the Model Code for securities transactions. The directors' interests in shares of the Group as at 31 December 2015 are set out in the section "Directors' Report" of this Annual Report.

Corporate Governance Report

E2: Training and Continuing Development for Directors

Each newly-appointed director receives induction or training, at the Company's expense, on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. During the reporting period, all the Directors of the Company received training and read relevant training materials on obligations and responsibilities of directors under the Listing Rules.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors are arranged and funded by the Company whenever necessary.

The Company encourages our Directors, senior management and colleagues to actively participate in relevant external bodies and organizations and attend relevant seminars and conferences to keep abreast of recent developments. Through active participation, valuable knowledge will be gained and more importantly corporate culture can be cultivated.

E3: External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2015 is set out in the section headed "Independent Auditors' Report" in this annual report. The fees paid/payable to Elite Partners CPA Limited for the year ended 31 December 2015 is RMB1,483,700.

Directors' Report

The board of directors of the Company (the "Board") are pleased to present the directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

Business Review

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 12 to 25 of this annual report. The review forms part of this Directors' Report.

Principal Activities

The principal activity of the Company is investment holding.

The principal activities of the Group include the design, development, production, marketing and distribution of sanitary ware branded products marketed under our own brand in the PRC and under third parties' brands on an ODM and OEM basis to our international customers. During the year, the Group acquired 70% interest of Fujian Yudeyuan Real Estate Limited ("Yudeyuan") from a related party, which is engaged in property development and leasing services.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 59 of the annual report.

The Board resolved not to distribute a final dividend for the year ended 31 December 2015 and recommended the retention of all profit in reserves.

Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 132 of the annual report.

Major Customers and Suppliers

The aggregate turnover attributable to the Group's five largest customers represented approximately 41.0% of the Group's total turnover for the year 2015, with the single largest customer contributing to approximately 24.4% of the Group's total turnover for the year. The aggregate purchase attributable to the Group's five largest suppliers represented approximately 61.6% of the Group's total purchases for the year 2015, with the single largest supplier contributing to approximately 11.2% of the Group's total purchases for the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% equity interest of the Company), had any interest in any of the Group's five largest customers or suppliers.

Property, Plant and Equipment

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

Directors' Report

Share Capital

Details of the movements in share capital of the Company for the year are set out in note 31 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 63 of the annual report.

Distributable Reserves of the Company

As at 31 December 2015, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Cayman Companies Law amounted to RMB342,222,000 (2014: RMB347,893,000).

Donations

During the year ended 31 December 2015, the Group did not make any charitable donations in cash.

Directors

The Directors of the Company up to the date of this report were:

Executive Directors

Mr. Xiao Zhiyong *(Chairman and Chief Executive Officer)*
Ms. Ye Xiaohong
Mr. Yang Qingyun
Mr. Lu Jianqing

Independent Non-Executive Directors

Mr. Tong Jifeng
Mr. Lin Shimao
Prof. So Wai-man, Raymond

In accordance with the Articles of Association of the Company, Ms. Ye Xiaohong, Mr. Yang Qingyun and Mr. Tong Jifeng will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management of the Company are set out from pages 28 to 31 of the annual report.

Directors' Service Contracts

No Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Report

Directors' Interests in the Shares and Share Options

As at 31 December 2015, the interests of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long position in ordinary shares of HKD0.01 each of the Company

Name	Long/Short position	Type of interest	Number of Shares	Percentage of shareholding in the Company
Mr. Xiao Zhiyong ("Mr. Xiao")	Long position	Interest in a controlled corporation[1]	400,195,023	39.67%
	Short position	Interest in a controlled corporation[1]	200,000,000[3]	19.82%
Ms. Ye Xiaohong ("Ms. Ye")	Long position	Interest of spouse[2]	400,195,023	39.67%
	Short position	Interest of spouse[2]	200,000,000[3]	19.82%
Max Lucky Group Limited ("Max Lucky")	Long position	Beneficial owner	400,195,023	39.67%
	Short position	Beneficial owner	200,000,000[3]	19.82%

Notes:

1. *Mr. Xiao is deemed to be interested in the shares held by Max Lucky by virtue of Max Lucky being controlled by Mr. Xiao directly.*

2. *Ms. Ye, being the wife of Mr. Xiao, is deemed (by virtue of the SFO) to be interested in 600,195,023 shares in the Company which are held by Max Lucky. Max Lucky is wholly-owned by Mr. Xiao.*

3. *Such number of shares of the Company, which is held by Mr. Xiao through Max Lucky as at the date hereof, are subject to certain security arrangement.*

(b) Interests in share options of the Company

Pursuant to a resolution passed on the general meeting of shareholders held on 25 June 2012, the Company adopted a share option scheme (the "Share Option Scheme"). As at 31 December 2015, no share options had been granted by the Company pursuant to the Share Option Scheme.

Save as disclosed above, as at 31 December 2015, none of the Directors or chief executive of the Company had any interests or short positions in any shares, share options, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

Substantial Shareholders

As at 31 December 2015, other than the interests disclosed in the section "Directors' interest in the Shares and Share Options", the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that the following person(s)/corporation(s) held interests or short positions in 5% or more of the issued shares capital of the Company:

Name	Long/Short position	Type of interest	Number of Shares	Percentage of shareholding in the Company
Ms. Xiao Xiuyu ("Ms. Xiao")	Long position	Interest in a controlled corporation[1]	2,700,000	0.27%
	Short position	Interest in a controlled corporation[1]	100,000,000	9.91%
Grand York Holdings Limited ("Grand York")	Long position	Beneficial owner	2,700,000	0.27%
	Short position	Beneficial owner	100,000,000	9.91%
China Cinda Asset Management Co., Ltd.	Long position	Custodian	300,000,000	29.74%
Asia Equity Value Ltd.	Long position	Beneficial owner	46,146,239	4.57%
	Long position	Person having a security interest in shares	54,347,000	5.39%

Notes:

1. *Ms. Xiao, who is Mr. Xiao's sister, is deemed to be interested in the shares held by Grand York by virtue of Grand York being controlled by Ms. Xiao directly.*

Save as disclosed above, other than the Directors or chief executive of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2015.

Directors' Interests in Contracts, Transactions or Arrangements of Significance

Save as disclosed herein, no other contracts, transactions or arrangements of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company or his/her associates had a material interest, whether directly or indirectly, were subsisted at the end of the year or at any time during the year.

Management Contracts

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

Directors' Report

Directors' Interests in Competing Business

During the year and up to the date of this report, none of the Directors of the Company and their respective associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Deed of Non-Competition

On 25 June 2012, Mr. Xiao, Max Lucky and Ms. Xiao (the "Covenantors") entered into a deed of non-competition (the "Deed of Non-Competition"). The Covenantors have confirmed with the Company that they had fully complied with the Deed of Non-Competition and that they and their associates had not, directly or indirectly, engaged, participated or held any right or interest in or otherwise be involved in the Restricted Business (as defined in the prospectus of the Company dated 29 June 2012) since the listing of the Company on the Hong Kong Stock Exchange in 2012.

The following actions or procedures are adopted and taken by the Covenantors, the Company and its directors during the year ended 31 December 2015 to ensure the Covenantors' compliance with the terms of the Deed of Non-Competition:

(a) The Covenantors signed and delivered to the Company an annual confirmation letter confirming their compliance with the Deed of Non-Competition and that they did not have any interest in the Restricted Business during the year ended 31 December 2015;

(b) At the board meeting where the annual results of the Group for 2015 are considered and approved, the independent non-executive directors of the Company received and reviewed the abovementioned confirmation letter from the Covenantors, and also reviewed the overall compliance by the Covenantors with the Deed of Non-Competition; and

(c) A special committee, comprising of Mr. Wong Wai Ming (the Company Secretary and Chief Financial Officer of the Company) and Mr. Yang Qingyun (the executive director of the Company), had been monitoring and ensuring the compliance with the Deed of Non-Competition during the year ended 31 December 2015 by way of communicating and enquiring with each of the Covenantors on a regular (at least monthly) basis as to whether each of the Covenantors engages, participates or holds any right or interest in or otherwise be involved in the Restricted Business.

The Company has followed and complied with the abovementioned procedures during the year ended 31 December 2015, and therefore is of the view that the Deed of Non-Competition had been duly complied with by the Covenantors throughout the year of 2015.

Social Responsibilities

We formulated and owned a series of policies and regulations in relation to environmental protection such as policies on sewage disposal and consumption of water, gas and electricity, and ensured practical implementation in the actual business operations.

Directors' Report

We have been focusing on compliance with laws and regulations. Relevant departments and human resources have been appointed to ensure continuous compliance with laws, regulations and various regulatory rules and we maintained good relationships with various regulatory authorities through efficient communication. During the Reporting Period, to the best knowledge of the Board, the Company has complied with the applicable laws and regulations that have a significant impact on the business and operation of the Company.

Our day-to-day operations also relates to other key stakeholders apart from shareholders, including staff, customers, suppliers and regulatory authorities. We formulated and adopted various internal mechanisms and policies to award and praise outstanding staff and help them to grow and get promotion in the Company through provision of appropriate training and opportunities. Further details on the Company's staff are set out in the "Employee and Remuneration" section of this report. In terms of customers, as a manufacturing enterprise, we adhere to provide stable green sanitary ceramic products so as to maintain long-term profitability, business expansion and assets growth. In terms of suppliers, we guarantee generation of cost effectiveness and promotion of long-term business interest by way of maintaining sound relationships and close communication and interaction with major raw materials and equipment suppliers. In addition, the Company is mainly regulated by various competent PRC domestic regulators, Securities and Futures Commission and the Hong Kong Stock Exchange. We will constantly update and ensure compliance with new rules and regulations.

Issuance of Debentures

On 28 December 2015, to enrich the operational requirements of the Group and for future mergers and acquisitions (target(s) of which has not been identified), the Company issued unsecured corporate bonds with principal value of HK$152,000,000. The corporate bonds bear interest at 6.5% per annum and fall due on 27 December 2017.

Liability Insurance and Indemnity

The Company purchased liability insurances for Directors of the Company. During the Reporting Period, the permitted indemnity provisions of the Company are set out in the Articles of Association and such liability insurances provided by the Company for Directors. These insurances will indemnify the insured for any fee arising from its liability or the possible legal proceedings.

Equity-linked Agreements

For the year ended 31 December 2015, the Company did not enter into any equity-linked agreement.

Connected Transactions

On 30 January 2015, Fujian Fuxiang Property Company Limited ("Fuxiang Property"), an indirectly wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Fujian Wanhui Investment Company Limited (a limited liability company incorporated in the PRC and owned by Mr. Xiao and Ms.Ye, the spouse of Mr. Xiao, as to 80% and 20% of its total equity interest, respectively) to acquire the Sale Interest in Fujian Yudeyuan Property Company Limited ("Yudeyuan") at the consideration of RMB172,217,500. Yudeyuan holds the land use right of the Yudeyuan Property. After the completion, Fuxiang Property will hold 70% of the total equity interest in Yudeyuan and therefore Yudeyuan will become the subsidiary of the Company.

Saved as the above, during the year ended 31 December 2015, the Group did not conduct any non-exempt connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

Directors' Report

Share Option Scheme

The Company adopted the Share Option Scheme by passing of a shareholders' resolution on 25 June 2012, which is briefly summarized below. For a detailed summary of the Share Option Scheme, please refer to the prospectus issued by the Company dated 29 June 2012. Otherwise specified, the defined terms herein shall have the same meaning as that in the prospectus issued by the Company dated 29 June 2012.

The purpose of the Share Option Scheme is to reward Participants who have contributed to the Group and to encourage Participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole.

The Participants of the Share Option Scheme include directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, partners, joint venture business partners, promoters or service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of Shares in issue on the Listing Date (not taking into account any Shares which were allotted and issued under the Over-allotment Option) (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme and (as the case may be) such other share option schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit. Subject to certain conditions, the maximum number of Shares issued and to be issued upon exercise of the Options granted to each Grantee under the Share Option Scheme (including both exercised and outstanding Options) in any 12-month period shall not (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the Shareholders in a general meeting) exceed 1% of the Shares in issue for the time being (the "Individual Limit").

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the Option Period (which shall not expire later than 10 years from the Date of Grant). After the expiration of the Option Period, no further Options shall be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. Options granted during the life of the Share Option Scheme shall continue to be exercisable in accordance with their terms of grant after the end of the ten-year period.

An Offer is deemed to be accepted when the Company receives from the Grantee the Offer letter signed by the Grantee specifying the number of Shares in respect of which the Offer is accepted, and a remittance to the Company of HK$1.00 as consideration for the grant of Option. The Subscription Price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of: (1) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant which must be a Business Day; (2) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the Date of Grant; and (3) the nominal value of the Shares.

Directors' Report

The Share Option Scheme was adopted for a period of ten years commencing from the Adoption Date. As at 31 December 2015, no share options had been granted by the Company pursuant to the Share Option Scheme, therefore the total number of shares of the Company available for issue under the Share Option Scheme is nil and accordingly the percentage of the issued shares that it represents is also nil.

Pre-emptive Rights

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

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2015.

Public Float

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float exceeding 25% of its issued share capital since its listing on the Hong Kong Stock Exchange on 13 July 2012.

Audit Committee

The Audit Committee has reviewed the accounting policies, accounting standards and practices adopted by the Group, and review the consolidated financial statements and results of the Group for the year ended 31 December 2015.

Auditors

The consolidated financial statements of the Group for the year ended 31 December 2015 have been audited by Messrs. Elite Partners CPA Limited, who will retire and, being eligible, will offer themselves for reappointment at the forthcoming annual general meeting.

For and on behalf of the Board

Xiao Zhiyong
Chairman

Zhangzhou, 31 March 2016

Historic Milestones

1997

Bolina brand was established.
In its early days, Bolina mainly focused on international market and products are exported to over 20 countries and regions. It gained high reputation in the international market with wide recognition and acclaim from customers.

2002

Zhangzhou Wanjia Ceramic Industrial Co., Ltd. was founded and its production capacity reached 900,000 units of sanitary ware per year.

2006

The second sanitary ware production line was put into production, total annual capacity increased to 1.9 million units.

2004

- After its success in tapping the international market, Bolina pursued gradual expansion of business in the domestic market. The two-pronged rapid expansion in both markets made Bolina an entrepreneurial success story.
- Being selected as “2008 Beijing Olympic Games Recommended Building Engineering Materials and Equipment”.
- Obtaining ISO9001 quality management system certification and ISO14001 certification for environmental management system.

2005

Zhangzhou Wanhui Sanitary Ware Co., Ltd. was founded.

Historic Milestones

2007

- The third sanitary ware production line was put into production, lifting the total annual capacity of the Group to 3.1 million units.
- Bolina was recognized as a brand for "Chinese Nominated Green and Environmental Friendly Building Materials for Energy-saving Design, Construction and Decoration Integration".
- Being rated as "Famous Branded Products of Fujian Province" and "Famous Trademark of Fujian Province".

2009

BOLINA was named one of "The Top 100 Enterprises of China Kitchen & Bath".

2008

- The Group put more resources to develop the domestic market and revised strategic plans for its proprietary brand. The network layout covering large and medium-sized cities in China was completed.
- Obtaining "China Water-Conservation Product Certification".

Historic Milestones

2010

- Appointing film star Ma Yili as the brand ambassador.
- The fourth sanitary ware production line was successfully put into production; total annual capacity of the Group increased to 3.9 million units.
- BOLINA was named one of the "Top 10 Bathroom Sanitary Wares Brand Names in China", "2010 Valuable Brand of the Year", "2010 Assessed Quality Products of Sanitary Wares in China", among others.

2011

- Being named one of the "2011 Top 10 Famous Sanitary Brand Names among the Top 100 Enterprises of Kitchen & Bath in China".
- Being awarded the "Golden Dragon Horse best design of China Sanitary Ware Award".
- Being rated as "Excellent Supplier of Construction Materials for National Indemnification Housing".
- Bolina established strategic alliance with Jin Sheng Group and Wan Ling industry.
- Zhangzhou Wanjia Ceramic Industrial Co., Ltd. gained the recognition of national new high-tech enterprises.

2012

- Bolina Holding Co., Ltd. successfully listed in Hong Kong stock exchange main board.
- Appointing singer Christine Fan to be its brand ambassador.
- Receiving the "2012 Hong Kong Outstanding Enterprise Award".
- Being named "2012 Top 10 Most Trusted Sanitary Brand by Customers", "2012 Top 10 Green Innovation Enterprise", "2012 Popular Brand of China Houseware Industry".
- Being named "China Top 10 Sanitary Ware Brand" and "Top 100 Enterprises of Kitchen & Bath in China" for the second year.
- The fifth sanitary ware production line was put into production, pushing the Group's total annual capacity to 4.9 million units.
- A branch in North China was formally established, opening a new strategic deployment for domestic market.

Historic Milestones

2013

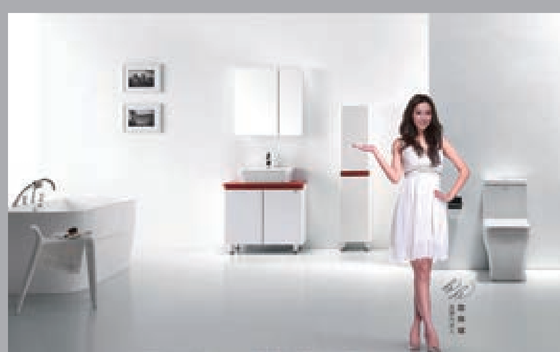
- Being recognized by the State Administration for Industry and Commerce as “China Well-known Trademark”.
- Being named “Influential Brand at Consumer End of the Year”, “Top 10 Sanitary Ware Brand of China Houseware Industry”. A number of products are granted patents in both technology and appearance.
- Anniversary celebration activities participated by Christine Fan including Christine Fan’s fan meeting in Zhangzhou, a zero distance media conference in the factory as well as a listing anniversary celebration party.
- Construction of the sixth sanitary ware production line started. Total annual production capacity of the Group will reach 6 million units after completion.
- Branch companies in Middle China, Fo Shan and Xi An, as well as offices in Beijing and Northeast China were built up successively, further enhancing the business network for the domestic market.

2015

- Bolina Holding was listed in the 2015 Forbes China Top 100 Listed Potential Enterprises list.
- Bolina was awarded the title of “2014 Leading Sanitary Product Brand” at the Third C.O.C.A Ceremony.
- Wanhui Company was included in the list of “2015 Industry Leaders at Municipal Level” issued by the Zhangzhou municipal government.
- Wanjia Company was recognized as a “Fujian Technology Enterprise”.
- Bolina received the 2015 Best Investment Value Award in the 2015 Leading Entrepreneurs Annual Convention jointly held by the Ministry of Industry and Information and the Leading Entrepreneurs magazine (《領軍企業家》雜誌社).

2014

- Our new products under the “BOLINA Sparkle” series won the “2014 Kapok Design Award”.
- Being awarded the “Golden Toilet Best Design Award” and “Golden Toilet – Best Sound Suppression Award”.
- Being named as one of “2013 Top 100 Enterprises of Kitchen & Bath in China and Top Ten leading Sanitary Ware Enterprises”, “2013 Top 100 Building and Decoration Material Enterprises in China”, “Top 10 Sanitary Ware Brands of China Houseware Industry”, “2014 Most Influential Brands”, “2014 Outstanding Suppliers for Procurement Projects for Real Estate Enterprises”, “2014 Favorite Building Material Brand Among Consumers in the Capital City”; “2014 Kitchen and Bath Product Golden Award for Prominent Technology”, “Green Sanitary Ceramics Award”.
- We rolled out our Internet shop and launched our online flagship store in Tmall. We partnered with “Amazon”, “Jingdong Mall”, “Suning.com”, “Gome.com.cn” and other parties to gain access to multiple platforms, creating a seamless e-commerce platform.



Independent Auditor's Report

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

TO THE MEMBERS OF BOLINA HOLDING CO., LTD
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Bolina Holding Co., Ltd (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 131, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, 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.

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

OPINION

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

Elite Partners CPA Limited
Certified Public Accountants
Yip Kai Yin
Practising Certificate Number: P05131

Hong Kong
31 March 2016

10th Floor,
8 Observatory Road,
Tsim Sha Tsui,
Kowloon, Hong Kong

Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	Notes	**2015 RMB'000**	2014 RMB'000
REVENUE	4(a)	**716,039**	865,613
Cost of sales	5(b)	**(430,547)**	(488,776)
Gross profit		**285,492**	376,837
Other income and gains, net	4(b)	**11,583**	12,042
Selling and distribution expenses		**(99,734)**	(83,412)
Administrative expenses		**(65,304)**	(68,802)
Other expenses		**(104)**	(1,309)
Profit from operations		**131,933**	235,356
Finance costs	6	**(20,020)**	(17,713)
Profit before tax	5	**111,913**	217,643
Income tax expense	7	**(39,585)**	(51,763)
Profit for the year		**72,328**	165,880
Attributable to:			
Owners of the Company	12	**74,087**	165,880
Non-controlling interests		**(1,759)**	–
		72,328	165,880
Earnings per share attributable to ordinary equity holders of the Company			
Basic – For profit for the year	11	**RMB7 cents**	RMB16 cents
Diluted – For profit for the year	11	**RMB7 cents**	RMB16 cents

Details of the dividends payable and proposed for the year are disclosed in note 10 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
PROFIT FOR THE YEAR	**72,328**	165,880
OTHER COMPREHENSIVE EXPENSE		
Other comprehensive expense to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(4,645)**	(1,452)
Net other comprehensive expense to be reclassified to profit or loss in subsequent periods	**(4,645)**	(1,452)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX	**(4,645)**	(1,452)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**67,683**	164,428
Attributable to:		
Owners of the Company	**69,442**	164,428
Non-controlling interests	**(1,759)**	–
	67,683	164,428

Consolidated Statement of Financial Position

31 December 2015

	Notes	**2015 RMB'000**	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**196,247**	208,829
Properties under development	14	**425,425**	–
Investment properties	15	**291,442**	–
Land use right	16	**11,533**	11,830
Goodwill	17	**35,915**	–
Intangible assets	18	**215**	302
Available-for-sale investments	19	**2,500**	2,500
Prepayments for properties under development		**6,059**	–
Deferred tax assets	29(b)	**6,860**	6,792
Pledged bank balances	23	**91,798**	90,000
Total non-current assets		**1,067,994**	320,253
CURRENT ASSETS			
Inventories	20	**104,749**	98,813
Trade receivables	21	**138,763**	120,192
Prepayments, deposits and other receivables	22	**50,590**	25,612
Pledged bank balances	23	**24,246**	40,979
Cash and cash equivalents	23	**909,894**	969,208
Total current assets		**1,228,242**	1,254,804
CURRENT LIABILITIES			
Trade and bills payables	24	**255,696**	94,895
Other payables and accruals	25	**289,410**	77,379
Derivative financial instruments	26	**2,164**	441
Amounts due to the controlling shareholder	39(b)	**173**	7,801
Interest-bearing bank and other borrowings	27	**442,367**	276,715
Income tax payable	29(a)	**3,320**	9,405
Total current liabilities		**993,130**	466,636
NET CURRENT ASSETS		**235,112**	788,168
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,303,106**	1,108,421

Consolidated Statement of Financial Position

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT LIABILITIES			
Derivative financial instruments	26	–	1,823
Interest-bearing bank borrowings	27	–	81,184
Deferred tax liabilities	29(b)	76,653	24,648
Corporate bonds	30	123,466	–
Total non-current liabilities		200,119	107,655
Net assets		1,102,987	1,000,766
EQUITY			
Equity attributable to owners of the company			
Share capital	31	8,226	8,226
Reserves	32	1,038,105	968,663
Proposed final dividend	10	–	23,877
		1,046,331	1,000,766
Non-controlling interests		56,656	–
Total equity		1,102,987	1,000,766

Xiao Zhiyong
Director

Yang Qingyun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

		Equity attributable to owners of the Company											
	Notes	Share capital RMB'000 note 31	Share premium RMB'000	Capital redemption reserve RMB'000	Discretionary reserve fund RMB'000 note 32(i)	Statutory reserve RMB'000 note 32(ii)	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000 note 32(iii)	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		8,274	360,808	–	21,894	34,729	101,081	6,231	364,954	55,843	953,814	–	953,814
Profit for the year		–	–	–	–	–	–	–	165,880	–	165,880	–	165,880
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(1,452)	–	–	(1,452)	–	(1,452)
Total comprehensive income for the year		–	–	–	–	–	–	(1,452)	165,880	–	164,428	–	164,428
Repurchase of shares		(48)	(13,193)	48	–	–	–	–	–	–	(13,193)	–	(13,193)
Transfer from retained profits		–	–	–	–	8,137	–	–	(8,137)	–	–	–	–
Final 2013 dividend declared		–	–	–	–	–	–	–	(420)	(55,843)	(56,263)	–	(56,263)
Interim 2014 dividend	10	–	–	–	–	–	–	–	(48,020)	–	(48,020)	–	(48,020)
Proposed final 2014 dividend	10	–	–	–	–	–	–	–	(23,877)	23,877	–	–	–
At 31 December 2014 and 1 January 2015		**8,226**	**347,615**	**48**	**21,894**	**42,866**	**101,081**	**4,779**	**450,380**	**23,877**	**1,000,766**	**-**	**1,000,766**
Profit for the year		-	-	-	-	-	-	-	74,087	-	74,087	(1,759)	72,328
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(4,645)	-	-	(4,645)	-	(4,645)
Total comprehensive income for the year		-	-	-	-	-	-	(4,645)	74,087	-	69,442	(1,759)	67,683
Acquisition of a subsidiary	33	-	-	-	-	-	-	-	-	-	-	58,415	58,415
Transfer from retained		-	-	-	-	4,325	-	-	(4,325)	-	-	-	-
Final 2014 dividend declared		-	-	-	-	-	-	-	-	(23,877)	(23,877)	-	(23,877)
At 31 December 2015		**8,226**	**347,615**	**48**	**21,894**	**47,191**	**101,081**	**134**	**520,142**	**-**	**1,046,331**	**56,656**	**1,102,987**

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**111,913**	217,643
Adjustments for:			
Depreciation of property, plant and equipment	13	**17,332**	21,899
Amortisation of land use right	16	**297**	334
Amortisation of intangible assets	18	**87**	47
Write-down of inventories to net realisable value	5(c)	**1,774**	2,657
Reversal of impairment of trade receivables	4(b)	**(382)**	–
Interest income	4(b)	**(3,452)**	(7,720)
Loss on disposal of property, plant and equipment	4(b)	**240**	73
Gain on disposal of land use right	4(b)	**–**	(3,126)
Fair value (gains)/losses on derivative instruments	4(b)	**(441)**	1,024
Finance costs	6	**20,020**	17,713
Impairment of trade receivables	5(c)	**104**	1,309
Impairment of other receivables	5(c)	**4,150**	–
Operating cash flows before movements in working capital change		**151,642**	251,853
Increase in trade receivables		**(17,762)**	(35,007)
Increase in prepayments, deposits and other receivables		**(19,234)**	(8,382)
Increase in inventories		**(7,710)**	(11,347)
(Decrease)/increase in trade payables		**(41,108)**	29,775
Increase in other payables and accruals		**91,810**	6,356
Increase in properties under development		**(27,399)**	–
Increase in prepayments for properties under development		**(4,739)**	–
Cash generated from operations		**125,500**	233,248
Tax paid	29(a)	**(46,041)**	(60,089)
Net cash flows generated from operating activities		**79,459**	173,159

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(4,548)**	(15,418)
Proceeds from disposal of property, plant and equipment		**150**	10
Proceeds from disposal of land use right		**–**	5,219
Purchase of investment properties		**(19,088)**	–
Net cash effect of acquisition of a subsidiary		**(170,175)**	–
Interest received		**3,452**	3,749
Net cash flows used in investing activities		**(190,209)**	(6,440)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares		**–**	(13,193)
Proceeds from bank loans and other borrowings		**316,360**	368,423
Repayment of bank loans and other borrowings		**(246,708)**	(326,391)
Advances to third parties		**(41,000)**	(20,000)
Collection of advances to third parties		**41,000**	20,000
Net proceeds from corporate bonds		**123,466**	–
Decrease/(Increase) in pledged bank balances		**15,867**	(1,155)
Repayment of advances from a related party		**(116,370)**	–
(Repayment)/advances from the controlling shareholder		**(8,092)**	7,801
Dividends paid		**(23,877)**	(104,283)
Interest paid		**(19,806)**	(15,116)
Net cash flows generated from/(used in) financing activities		**40,840**	(83,914)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(69,910)**	82,805
Cash and cash equivalents at beginning of year		**969,208**	887,855
Effect of foreign exchange rate changes, net		**10,596**	(1,452)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**909,894**	969,208

Notes to Consolidated Financial Statements

31 December 2015

1. CORPORATE INFORMATION

Bolina Holding Co., Ltd. was incorporated as an exempted company with limited liability in the Cayman Islands on 19 April 2011. The registered office of the Company is located at the offices of Appleby Trust (Cayman) Ltd., Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The Group has established a principal place of business which is located at Suite No.2 on 17/F., Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

The shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 13 July 2012.

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the manufacture and sale of sanitary ware products. During the year, the Group acquired 70% interest of Fujian Yudeguan Real Estate Limited ("Yudeguan") from a related party, which is engaged in property development and leasing services.

In the opinion of the directors, the ultimate holding company of the Company is Max Lucky Group Limited ("Max Lucky"), which is incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance ("CO"). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2015 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements. The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments which has been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise stated.

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2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKAS 19	Defined benefit plans: employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle

The adoption of the above amendments to HKFRSs in current year has had no significant financial effect on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG REPORTING STANDARDS

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

HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[1]
Amendments to HKAS 1	Disclosure Initiative[1]
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its and Associate or Joint Venture[3]
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]

1 *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*
2 *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*
3 *Effective for annual periods beginning on or after a date to be determined.*

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG REPORTING STANDARDS (continued)

Annual Improvement to HKFRSs 2012 – 2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 clarify that changing from one of the disposal methods (i.e. disposal through sale or disposal through distribution to owners) to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in HKFRS 5. Besides, the amendments also clarify that changing the disposal method does not change the date of classification.

The amendments to HKFRS 7 clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the additional disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety are required. Besides, the amendments to HKFRS 7 also clarify that disclosures in relation to offsetting financial assets and financial liabilities are not required in the condensed interim financial report, unless the disclosures provide a significant update to the information reported in the most recent annual report.

The amendments to HKAS 19 clarify that the market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

HKAS 34 requires entities to disclose information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'. The amendments to HKAS 34 clarify that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2012-2014 Cycle will have a material effect on the Group's consolidated financial statements.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets; and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG REPORTING STANDARDS (continued)

HKFRS 9 (2014) Financial Instruments (continued)

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principle and interest on the principle outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principle amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to changes in the financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires and expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group undertakes a detailed review.

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31 December 2015

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG REPORTING STANDARDS (continued)

HKFRS 15 Revenue from contracts with customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.

- Step 2: Identify the performance obligations in the contract.

- Step 3: Determine the transaction price.

- Step 4: Allocate the transaction price to the performance obligations in the contract.

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptance Methods of Depreciation and Amortisation

The amendments establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

The amendments are effective for annual periods beginning on or after 1 January 2016 with early application permitted. The amendments should be applied prospectively. As the Group use straight-line method for the depreciation for its property, plant and equipment, the directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly. The directors of the Company anticipate that the application of the amendments will have no material impact on the consolidated financial statements.

Notes to Consolidated Financial Statements

31 December 2015

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG REPORTING STANDARDS (continued)

Amendments to HKAS 1 Disclosure Initiative

The amendments clarify that companies should use professional judgement in determining what information as well as where and in what order information is presented in the financial statements. Specifically, an entity should decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity does not require to provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contain a list of specific requirements or describe them as minimum requirements.

Besides, the amendments provide some additional requirements for presenting additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity's financial position and financial performance respectively. Entities, in which they have investments in associates or joint ventures, are required to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Furthermore, the amendments clarify that:

(i) an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes; and

(ii) significant accounting policies are not required to be disclosed in one note, but instead can be included with related information in other notes.

The amendments will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted.

The directors of the Company anticipate that the application of Amendments to HKAS 1 in the future may have no material impact on the disclosures made in the Group's consolidated financial statements.

Other than the above mentioned new and revised HKFRSs and amendments the directors of the Company anticipate that the application of the new and revised HKFRSs and amendments will have no material impact on the consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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).

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries (continued)

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 results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

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.

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.

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 derivative financial instruments 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.

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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 and financial 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 asset. 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.

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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;

(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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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.

Notes to Consolidated Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

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 estimated useful lives of property, plant and equipment are as follows:

Leasehold improvements	Over the lease terms
Buildings	20 years
Plant and machinery	5 to 20 years
Furniture and fixtures	3 to 5 years
Motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost 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 buildings, plant and machinery under construction or pending for installation, which are stated at cost less any impairment losses, and are 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.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at historical cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on the straight-line basis over the expected useful life of 10 to 50 years.

Notes to Consolidated Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the statement of profit or loss during the financial period in which they are incurred.

Any gains or losses on the retirement on disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes. If an item of property, plant and equipment becomes an investment property because its use has changed, the carrying amount of this item at the date of transfer is recognised as the cost of an investment property for accounting purposes. Property being constructed or developed for future as an investment property is classified as an investment property.

Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development which are intended to be held for sale and expected to be completed within 12 months from the end of the reporting period are classified as current assets.

Properties under development which are intended to be held for sale and expected to be completed beyond 12 months from the end of the reporting period are classified as non-current assets.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be finite. 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 are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Software	5 years
Brand name	10 years

Research and development costs

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. When the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivables 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 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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, except in the case of financial assets recorded at fair value through profit or loss.

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

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 other expenses.

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.

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

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 earned whilst holding the available-for-sale financial investments is reported as interest income and is recognised in the statement of profit or loss as other income in accordance with the policy 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.

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 (i.e., removed from the Group's consolidated statement of financial position) 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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 assets 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.

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 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.

Notes to Consolidated Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Assets carried at cost

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

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 profit or loss.

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 financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)

The Group's financial liabilities include corporate bonds, trade payables, other payables, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing loans and borrowings 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 consolidated 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.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

For the purpose of the statement of financial 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.

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.

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 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and 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, 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 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

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

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

(b) 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 to the net carrying amount of the financial asset.

Other employee benefits

Pension scheme

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. 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.

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 a certain percentage 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are 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. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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 RMB, which is also the functional currency of the subsidiaries located in Mainland China. 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 the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB 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.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB 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 RMB at the weighted average exchange rates for the year.

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2.5 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:

Operating lease commitments

Group as lessee

The Group has entered into property, plant and equipment leases with various lessors. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessors retain all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that its retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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.

Useful lives of property, plant and equipment

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

Notes to Consolidated Financial Statements

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2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. 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.

Current income tax and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact the income tax and deferred tax provisions in the period in which the determination is made.

3. SEGMENT INFORMATION

For management purposes, the Group's business is divided into business units based on the type of products and services that the segment is engaged to provide. The Group has two reportable operating segments as follows:

(a) the sanitary ware segment – production and distribution of ceramic and non-ceramic sanitary ware products;

(b) the property development and leasing segment – development, sale and lease of properties in Mainland China.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions with respect to resources allocation and performance assessment. Segment performance is evaluated based on the adjusted profit or loss of each reportable segment which is measured at the Group's profit before tax adjusted for interest income, finance costs, dividend income, fair value gains or losses from the Group's financial instruments as well as head office and corporate expenses that are not divisible into and assignable to different segments.

Notes to Consolidated Financial Statements

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3. SEGMENT INFORMATION (continued)

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

The Group has no revenue generated from the property development and leasing segment during the year ended 31 December 2015. The following tables present the Group's segment information in terms of assets and liabilities as at 31 December 2015.

Year ended 31 December 2015

	Sanitary ware RMB'000	Property development and leasing RMB'000	Total RMB'000
Segment assets	1,798,820	789,614	2,588,434
Reconciliation:			
Elimination of intersegment receivables			(353,458)
Corporate and other unallocated assets			61,260
Total assets			2,296,236
Segment liabilities	923,837	394,596	1,318,433
Reconciliation:			
Elimination of intersegment payables			(353,458)
Corporate and other unallocated liabilities			228,274
Total liabilities			1,193,249

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31 December 2015

3. SEGMENT INFORMATION (continued)

Geographical information

The following tables present the Group's geographical information in terms of revenue for the years ended 31 December 2015 and 2014, and non-current assets as at 31 December 2015 and 2014.

(a) Revenue from external customers

	2015	2014
	RMB'000	RMB'000
America	**312,986**	322,771
Mainland China	**385,883**	511,121
Europe	**13,734**	14,713
Asia (excluding Mainland China)	**3,436**	17,008
	716,039	865,613

The revenue information above is based on the locations of the customers.

(b) Non-current assets

The principal place of the Group's operation is in Mainland China. For the purpose of segment information disclosures under HKFRS 8, the Group regards Mainland China as its country of domicile. Over 90% of the Group's non-current assets are principally attributable to Mainland China, being the single geographical region.

Information about major customers

Revenue from two of the Group's customers, amounting to RMB191,016,000 and RMB80,129,000 (2014: two customers amounting to RMB179,735,000 and RMB98,684,000) has individually accounted for over 10% of the Group's total revenue.

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4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's revenue, represents the net invoiced value of goods sold, after netting off sales rebates for the years ended 31 December 2015 and 2014.

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

(a) Revenue

	2015 RMB'000	2014 RMB'000
Revenue from the sale of sanitary ware products	**716,039**	865,613

(b) Other income and gains, net

	2015 RMB'000	2014 RMB'000
Other income		
Government grants*	**1,370**	2,278
Bank interest income	**3,452**	7,720
Foreign exchange differences, net	**5,097**	–
Others	**1,081**	15
	11,000	10,013
Gains/(losses), net		
Fair value gains/(losses), net:		
Derivative instruments	**441**	(1,024)
Loss on disposal of property, plant and equipment	**(240)**	(73)
Gain on disposal of land use right	**–**	3,126
Reversal of impairment of trade receivables	**382**	–
	583	2,029
Other income and gains, net	**11,583**	12,042

* *Various government grants have been received for conducting export sales and processing trade within Fujian Province, Mainland China. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2015.*

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5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

		2015 RMB'000	2014 RMB'000
(a)	**Employee benefit expense (including directors' and chief executive's remuneration (note 8))**		
	Wages and salaries	**100,792**	106,691
	Pension scheme contributions, social welfare and other welfare	**7,145**	9,706
		107,937	116,397
(b)	**Cost of sales**		
	Cost of inventories sold	**311,680**	362,811
	Others	**118,867**	125,965
		430,547	488,776
(c)	**Other items**		
	Depreciation of property, plant and equipment*	**17,332**	21,899
	Amortisation of land use right	**297**	334
	Amortisation of intangible assets	**87**	47
	Operating lease expenses*	**24,311**	23,793
	Advertisement and promotion expenses	**51,597**	26,892
	Logistics expenses	**12,502**	13,445
	Research and development expenses*	**15,980**	19,996
	Foreign exchange differences, net	**–**	1,664
	Provision for impairment of trade receivables**	**104**	1,309
	Provision for impairment of other receivables***	**4,150**	–
	Write-down of inventories to net realisable value***	**1,774**	2,657
	Auditors' remuneration	**2,284**	2,500

* *The depreciation of property, plant and equipment of RMB10,814,000 (2014: RMB10,499,000), the operating lease expenses of RMB14,049,000 (2014: RMB11,017,000) and the research and development expenses of RMB9,800,000 (2014: RMB11,059,000) are included in "Cost of sales" in the consolidated statement of profit or loss.*

** *The provision for impairment of trade receivables is included in "Other expenses" in the consolidated statement of profit or loss.*

*** *The write-down of inventories to net realisable value and provision for impairment of other receivables are included in "Administrative expenses" in the consolidated statement of profit or loss.*

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6. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest expense on bank borrowings wholly repayable within five years	**19,078**	16,262
Interest expense on other borrowings wholly repayable within five years	**728**	730
Total interest expenses	**19,806**	16,992
Unrealised loss on interest rate swaps	**214**	721
	20,020	17,713

7. INCOME TAX EXPENSE

(a) Income tax expense in the consolidated statement of profit or loss represents:

	2015 RMB'000	2014 RMB'000
Current – Mainland China Enterprise Income Tax	**38,782**	56,904
Deferred tax (note 29(b))	**803**	(5,141)
	39,585	51,763

Subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% during the year ended 31 December 2015 (2014: 16.5%). No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2015 (2014: Nil).

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

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7. INCOME TAX EXPENSE (continued)

(a) Income tax expense in the consolidated statement of profit or loss represents (continued):

Pursuant to the International Business Companies Act, 1984 (the "IBC Act") of the British Virgin Islands ("BVI"), international business companies incorporated pursuant to the IBC Act enjoy a complete exemption from income tax. This includes an exemption from capital gains tax and all forms of withholding tax. Accordingly, the subsidiary incorporated in the BVI is not subject to tax.

The National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "Income Tax Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which have been effective since 1 January 2008. According to the Income Tax Law, the income tax rates for both domestic and foreign investment enterprises were unified at 25% effective from 1 January 2008.

Under the Income Tax Law of the People's Republic of China (the "PRC"), the Company's subsidiaries that are established in the PRC were subject to income tax at a base rate of 25% during the year.

Pursuant to the Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% (2014: 5%). On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of Mainland China from retained earnings as at 31 December 2007 are exempted from the withholding tax.

(b) Reconciliation between tax expense and accounting profit at the applicable tax rate:

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

	2015	2014
	RMB'000	RMB'000
Profit before tax	**111,913**	217,643
Tax at the statutory tax rate (25%)	**27,978**	54,411
Lower tax rates for specific provinces or enacted by local authorities	**(39)**	(436)
Adjustments in respect of current tax of previous year	**1,655**	(1,752)
Expenses not deductible for tax purposes	**3,065**	1,245
Tax loss not recognised	**6,526**	6,532
Effect of withholding tax at 5% (2014: 5%) on the distributable profits of the Group's subsidiaries in Mainland China	**400**	(8,237)
Tax charge	**39,585**	51,763

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2015	2014
	RMB'000	RMB'000
Fees	**8,965**	6,750
Other emoluments:		
Salaries, allowances and benefits in kind	**776**	774
Discretionary bonuses	**64**	1,277
Pension scheme contributions	**29**	26
	869	2,077
	9,834	8,827

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2015	2014
	RMB'000	RMB'000
Mr. TONG Jifeng	**65**	68
Mr. LIN Shimao	**65**	68
Mr. LEUNG Ka Man	**–**	165
Prof. SO Wai-man, Raymond	**173**	7
	303	308

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

(a) Independent non-executive directors (continued)

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

Mr. LEUNG Ka Man has resigned as an independent non-executive director of the Company with effect from 12 January 2015.

Prof. SO Wai-man, Raymond has been appointed as an independent non-executive director of the Company with effect from 15 December 2014.

(b) Executive directors and the chief executive

	2015				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
Executive director and chief executive					
Mr. XIAO Zhiyong	2,887	403	34	8	3,332
Executive directors					
Ms. YE Xiaohong	1,925	121	10	7	2,063
Mr. YANG Qingyun	1,925	126	10	7	2,068
Mr. LU Jianqing	1,925	126	10	7	2,068
	8,662	776	64	29	9,531

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

(b) Executive directors and the chief executive (continued)

	2014				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
Executive director and chief executive					
Mr. XIAO Zhiyong	2,504	402	1,232	8	4,146
Executive directors					
Ms. YE Xiaohong	1,260	120	15	6	1,401
Mr. YANG Qingyun	1,418	126	15	6	1,565
Mr. LU Jianqing	1,260	126	15	6	1,407
	6,442	774	1,277	26	8,519

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2015 included three directors and the chief executive (2014: three directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2014: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2015 **RMB'000**	2014 RMB'000
Salaries, bonuses, allowances and benefits in kind	**529**	2,993
Pension scheme contributions	**7**	13
	536	3,006

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9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees	
	2015	2014
HK$500,001 to HK$1,000,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	1

10. DIVIDENDS

	2015	2014
	RMB'000	RMB'000
Interim – HK$Nil (2014: HK$6.0 cents (approximately RMB4.8 cents)) per ordinary share	**–**	48,020
Proposed final – HK$Nil (2014: HK$3.0 cents (approximately RMB2.4 cents)) per ordinary share	**–**	23,877
	–	71,897

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts for the year ended 31 December 2015 is based on the profit for the year attributable to the ordinary equity holders of the Company of RMB74,087,000 (2014: RMB165,880,000) and the weighted average number of ordinary shares of 1,008,866,000 (2014: 1,011,898,100) during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2015 and 2014 as the Group had no potentially dilutive ordinary shares in issue during those years.

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2015 includes a loss of RMB5,671,000 (2014: profit of RMB69,635,000) which has been dealt with in the financial statements of the Company (note 41(a)).

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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Furniture and Fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST:							
At 1 January 2014	17,704	122,318	92,020	5,513	9,321	25,801	272,677
Additions	1,045	179	703	537	2,730	10,224	15,418
Transfers	–	140	–	–	–	(140)	–
Disposals	–	–	–	–	(100)	–	(100)
At 31 December 2014	18,749	122,637	92,723	6,050	11,951	35,885	287,995
Accumulated Depreciation:							
At 1 January 2014	6,671	19,269	24,005	2,432	4,907	–	57,284
Depreciation provided during the year	8,100	5,445	6,126	814	1,414	–	21,899
Disposals	–	–	–	–	(17)	–	(17)
At 31 December 2014	14,771	24,714	30,131	3,246	6,304	–	79,166
Net carrying amount:							
At 31 December 2014	3,978	97,923	62,592	2,804	5,647	35,885	208,829
COST:							
At 1 January 2015	**18,749**	**122,637**	**92,723**	**6,050**	**11,951**	**35,885**	**287,995**
Additions	**–**	**1,445**	**1,398**	**82**	**–**	**1,623**	**4,548**
Additions from acquisition	**–**	**–**	**–**	**142**	**450**	**–**	**592**
Disposals	**–**	**–**	**–**	**–**	**(2,025)**	**–**	**(2,025)**
At 31 December 2015	**18,749**	**124,082**	**94,121**	**6,274**	**10,376**	**37,508**	**291,110**
Accumulated Depreciation:							
At 1 January 2015	**14,771**	**24,714**	**30,131**	**3,246**	**6,304**	**–**	**79,166**
Depreciation provided during the year	**3,070**	**5,659**	**6,247**	**811**	**1,545**	**–**	**17,332**
Disposals	**–**	**–**	**–**	**–**	**(1,635)**	**–**	**(1,635)**
At 31 December 2015	**17,841**	**30,373**	**36,378**	**4,057**	**6,214**	**–**	**94,863**
Net carrying amount:							
At 31 December 2015	**908**	**93,709**	**57,743**	**2,217**	**4,162**	**37,508**	**196,247**

At 31 December 2015, certain of the Group's buildings with an aggregate net carrying amount of approximately RMB61,969,000 (2014: RMB75,712,000) were pledged as security for the Group's bank borrowings (note 27(a)(ii)).

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14. PROPERTIES UNDER DEVELOPMENT

	2015	2014
	RMB'000	RMB'000
At beginning of the year	**–**	–
Acquisition of a subsidiary	**398,026**	–
Addition	**27,399**	–
At end of the year	**425,425**	–

Properties under development are located in Mainland China.

The carrying amounts of the properties under development situated on the leasehold land in Mainland China by lease terms are as follows:

	2015	2014
	RMB'000	RMB'000
Leases of over 40 years	**311,131**	–
Leases of between 20 and 40 years	**114,294**	–
	425,425	–

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15. INVESTMENT PROPERTIES

	2015 **RMB'000**	2014 RMB'000
At beginning of the year	**–**	–
Acquisition of a subsidiary	**272,354**	–
Addition	**19,088**	–
At end of the year	**291,442**	–

Investment properties are all situated in Mainland China and are held under the following lease terms:

	2015 **RMB'000**	2014 RMB'000
Leases of between 10 and 50 years	**291,442**	–

The fair value of the Group's investment properties at 31 December 2015 was RMB363,930,000. The fair value has been arrived at based on a valuation carried out by AVISTA Valuation Advisory Limited, independent valuers not connected with the Group.

The fair value was determined based on the income approach by taking into account the net income of the property derived from the existing lease and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which has been then capitalised to determine the market value at an appropriate capitalisation rate.

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16. LAND USE RIGHT

	2015	2014
	RMB'000	RMB'000
Cost:		
At beginning of the year	**14,421**	16,900
Disposals	**–**	(2,479)
At end of the year	**14,421**	14,421
Amortisation:		
At beginning of the year	**2,591**	2,643
Charge for the year	**297**	334
Disposals	**–**	(386)
At end of the year	**2,888**	2,591
Net carrying amount:		
At end of the year	**11,533**	11,830

Certain land use right situated in Mainland China and held under a medium term lease. The remaining lease terms of the land use rights of the Group range from 40 to 41 years.

At 31 December 2015, certain of the Group's land use right with an aggregate net book value of approximately RMB11,533,000 (2014: RMB11,830,000) were pledged as security for the Group's bank borrowings (note 27(a)(i)).

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17. GOODWILL

	RMB' 000
Cost:	
At 31 December, 2014 and 1 January, 2015	–
Acquisition of a subsidiary	35,915
At 31 December, 2015	35,915

During the year ended 31 December 2015, the Group acquired 70% of issued share capital of Fujian Yudeyuan Property Co., Ltd. The Group recognised goodwill of approximately RMB35,915,000 upon the completion of the acquisition. Such goodwill has been allocated to the business segment of real estate development and management.

The Group performed its annual impairment test for goodwill by comparing its recoverable amount to its carrying amount at the end of the reporting period. No impairment recognised as at 31 December 2015.

18. INTANGIBLE ASSETS

	Brand name RMB'000	Software RMB'000	Total RMB'000
Cost:			
At 1 January 2014 and 31 December 2014	320	363	683
Accumulated amortisation:			
At 1 January 2014	192	142	334
Amortisation provided during the year	32	15	47
At 31 December 2014	224	157	381
Net carrying amount:			
At 31 December 2014	96	206	302
Cost:			
At 1 January 2015 and 31 December 2015	**320**	**363**	**683**
Accumulated amortisation:			
At 1 January 2015	**224**	**157**	**381**
Amortisation provided during the year	**32**	**55**	**87**
At 31 December 2015	**256**	**212**	**468**
Net carrying amount:			
At 31 December 2015	**64**	**151**	**215**

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19. AVAILABLE-FOR-SALE INVESTMENTS

	2015 RMB'000	2014 RMB'000
Unlisted equity investments, at cost:	**2,500**	2,500

The available-for-sale investment is an equity investment in China Ceramics Investment Development Co., Ltd. (an unlisted company with a registered capital of RMB58,750,000), which was designated as an available-for-sale financial asset. The investment was stated at cost because the investment does not have a quoted market price in an active market and, in the opinion of the directors, the fair value estimate cannot be measured reliably.

20. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**6,819**	9,072
Accessories	**7,567**	6,988
Work in progress	**22,671**	15,409
Finished goods	**65,438**	65,568
Wrappage	**2,254**	1,776
	104,749	98,813

21. TRADE RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	**140,100**	121,807
Impairment	**(1,337)**	(1,615)
	138,763	120,192

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21. TRADE RECEIVABLES (continued)

The Group's trading terms with its overseas customers are mainly on credit and advance payment is normally required for domestic customers. The credit period for overseas customers is generally one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. 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, except for two major customers set out in note 3, there is no significant concentration of credit risk. 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 provisions, is as follows:

	2015	2014
	RMB'000	RMB'000
Within 3 months	**84,129**	78,965
More than 3 months but less than 1 year	**48,317**	41,192
Over 1 year	**6,317**	35
	138,763	120,192

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

	2015	2014
	RMB'000	RMB'000
Neither past due nor impaired	**113,977**	105,787
Less than 3 months past due	**18,417**	14,370
3 to 12 months past due	**6,369**	–
Over 1 year past due	**–**	35
	138,763	120,192

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21. TRADE RECEIVABLES (continued)

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 are of the view 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.

The movement in the provision for impairment of trade receivables is as follows:

	2015	2014
	RMB'000	RMB'000
At beginning of the year	**1,615**	306
Impairment losses recognised	**104**	1,309
Reversal of impairment	**(382)**	–
At end of the year	**1,337**	1,615

Included in the above provision for impairment of trade receivables as at 31 December 2015 is a provision for individually impaired trade receivables of RMB1,337,000 (2014: RMB1,615,000).

The individually impaired trade receivables related to customers that were in default in principal payments and only a portion of the receivables is expected to be recovered.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015	2014
	RMB'000	RMB'000
Prepayments and deposits to suppliers	**10,298**	7,270
Deposits and prepayments to chain supermarkets	**2,957**	4,816
Prepayments for advertising	**–**	6,400
Prepayment for tax	**22,075**	–
Other receivables	**19,410**	7,126
	54,740	25,612
Impairment on other receivables	**(4,150)**	–
	50,590	25,612

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The movement in the provision for impairment of other receivables is as follows:

	2015	2014
	RMB'000	RMB'000
At beginning of the year	**–**	–
Impairment loss recognised	**4,150**	–
At end of the year	**4,150**	–

Included in the above impairment of other receivables for the year are individually impaired other receivables with a balance of approximately RMB4,150,000 (2014: RMB Nil) which have been considered not recoverable. The impairment recognised represents the difference between the carrying amount of these other receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	2015	2014
	RMB'000	RMB'000
Cash and bank balances	**909,894**	969,208
Time deposits	**116,044**	130,979
	1,025,938	1,100,187
Less: Pledged bank balances		
Long-term bank deposits	**(91,798)**	(90,000)
Short-term bank deposits	**(24,246)**	(40,979)
Cash and cash equivalents	**909,894**	969,208

At 31 December 2015, the cash and bank balances of the Group denominated in RMB amounted to RMB840,879,000 (2014: RMB960,631,000). 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 authorisation to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for one to two years, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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24. TRADE AND BILLS PAYABLES

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

	2015 RMB'000	2014 RMB'000
Within 3 months	**167,669**	56,016
3 to 6 months	**25,419**	27,851
6 to 12 months	**43,645**	9,017
Over 12 months	**18,963**	2,011
	255,696	94,895

The trade payables are non-interest-bearing and are normally settled on terms of 15 to 120 days.

25. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Payables for purchase of items of property, plant and equipment	**9,932**	4,329
Advances received	**157,818**	4,359
Staff payroll and welfare payables	**23,743**	28,916
Payables for sales rebates	**2,151**	5,806
Other taxes payable	**3,476**	3,941
Rental payable	**20,609**	10,461
Others	**71,681**	19,567
	289,410	77,379

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 RMB'000	2014 RMB'000
Liabilities		
Forward currency contracts	**426**	441
Interest rate swaps	**1,738**	1,823
	2,164	2,264
Less: Non-current Liabilities	**–**	1,823
Current Liabilities	**2,164**	441

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2015			2014		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank borrowings	**3 – 8**	**2016**	**363,749**	5 – 8	2015	256,021
Other borrowings	**3 – 18**	**2016**	**78,618**	3 – 4	2015	20,694
			442,367			276,715
Non-current						
Bank borrowings			**–**	3	2016	81,184
			442,367			357,899

Interest-bearing bank borrowings and other borrowings represent:

	2015	2014
	RMB'000	RMB'000
– Secured (note (a))	**309,133**	272,304
– Guaranteed (note (b))	**70,780**	25,000
– Unsecured	**62,454**	60,595
	442,367	357,899

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) mortgages over the Group's land use right situated in Mainland China, which had an aggregate carrying value of approximately RMB11,533,000 as at 31 December 2015 (2014: RMB11,830,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB61,969,000 as at 31 December 2015 (2014: RMB75,712,000);

(iii) mortgages over the Group's forward letters of credit which amounted to RMB30,145,000 as at 31 December 2015 (2014: RMB21,807,000); and

(iv) mortgages over the Group's pledged bank balances which amounted to RMB115,498,000 as at 31 December 2015 (2014: RMB129,968,000).

(b) Certain of the Group's bank borrowings which amounted to RMB5,000,000 as at 31 December 2015 (2014: RMB5,000,000) were guaranteed by the Controlling Shareholder. Certain of the Group's bank borrowings which amounted to RMB14,000,000 as at 31 December 2015 (2014: RMB20,000,000) were guaranteed by certain third parties.

28. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the PRC state regulations, 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 a certain percentage of their payroll costs to the central pension scheme. During the year, the Mainland China subsidiaries were required to make contributions to the local social security bureau at 10% to 22% (2014: 10% to 22%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

At 31 December 2015 and 2014, the Group had no significant obligation apart from the contribution as stated above.

29. INCOME TAX PAYABLE AND DEFERRED TAX

(a) The movements in income tax payable during the year are as follows:

	2015 **RMB'000**	2014 RMB'000
At beginning of the year	**9,405**	12,590
Provision for current tax for the year	**38,782**	56,904
Acquisition of a subsidiary	**1,174**	–
Current tax paid	**(46,041)**	(60,089)
At end of the year	**3,320**	9,405

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29. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax assets:

	Losses available for offsetting against future taxable profits	Accruals	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	691	8,264	–	8,955
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 7)	(691)	(2,574)	1,102	(2,163)
At 31 December 2014 and at 1 January 2015	–	5,690	1,102	6,792
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 7)	–	478	(410)	68
At 31 December 2015	–	6,168	692	6,860

The Group has tax losses arising in Mainland China of RMB13,541,000 (2014: RMB7,223,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Hong Kong of RMB97,668,000 (2014: RMB77,882,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of certain of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is uncertain that taxable profits will be available against which the tax losses can be utilised.

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29. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

(b) Deferred tax assets and liabilities recognised (continued)

Deferred tax liabilities:

	Accelerated depreciation for tax purposes	Withholding tax	Fair value gains on forward currency contracts	Revaluation of property under development and investment properties	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	1,833	29,974	145	–	–	31,952
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 7)	458	(8,237)	(145)	–	620	(7,304)
At 31 December 2014 and at 1 January 2015	2,291	21,737	–	–	620	24,648
Acquisition of a subsidiary	–	–	–	51,134	–	51,134
Deferred tax charged to the consolidated statement of profit or loss during the year (note 7)	471	400	–	–	–	871
At 31 December 2015	2,762	22,137	–	51,134	620	76,653

30. CORPORATE BONDS

	2015	2014
	RMB'000	RMB' 000
At 1 January	**–**	–
Corporate bonds issued	**123,466**	–
At 31 December	**123,466**	–

On 28 December 2015, the Company issued unsecured corporate bonds with principal value of HK$152,000,000. The corporate bonds bear interest at 6.5% per annum and fall due on 27 December 2017 (the "Corporate Bonds Maturity Date").

The corporate bonds are subsequently measured at amortised cost, using effective rate interest rate of 8.16%. As at 31 December 2015, the carrying amount of the corporate bonds was approximately RMB123,466,000 (2014: Nil).

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31. SHARE CAPITAL

	Number of ordinary shares of HK$0.01	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Authorised:			
As at 31 December 2015 and 2014	2,000,000,000	20,000	16,612

	Number of ordinary shares of HK$0.01	Nominal value of ordinary shares RMB'000	Share premium RMB'000
Issued:			
As at 31 December 2014 and 2015	1,008,866,000	8,226	347,615

As at 31 December 2015, all issued shares are registered, fully paid and divided into 1,008,866,000 shares (2014: 1,008,866,000 shares) of HK$0.01 each.

There was no movement in 2015.

The Company repurchased on the Hong Kong Stock Exchange a total of 5,834,000 shares of HK$0.01 each of the Company for an aggregate consideration of HK$16,617,000 (RMB13,193,000 equivalent). The repurchased shares were cancelled on 30 April 2014 and 22 August 2014.

32. RESERVES

The amounts of the Group's reserves and movements therein for the years ended 31 December 2015 and 2014 are presented in the consolidated statement of changes in equity.

(i) Discretionary reserve fund

Pursuant to the articles of association of certain subsidiaries of the Group established in the PRC, these subsidiaries are required to transfer part of their profits after taxation to the discretionary reserve. The amounts allocated to this reserve are determined by the respective boards of directors.

For the PRC subsidiaries, in accordance with the Company Law of the People's Republic of China (revised), the discretionary reserve fund can be used to offset previous years' losses, if any, and may be converted into capital in proportion to the equity shareholders' existing equity holdings, provided that the balance after the conversion is not less than 25% of the registered capital.

(ii) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 42 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China.

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33. BUSINESS COMBINATION

On 10 March 2015, the Group acquired a 70% interest in Yudeyuan from a related party of the Company, at a consideration of RMB172,218,000. Yudeyuan is engaged in property development and leasing services. The purchase consideration for the acquisition was in the form of cash and fully paid. The Group has elected to measure the non-controlling interest in Yudeyuan at the non-controlling interest's proportionate share of Yudeyuan's identifiable net assets.

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

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	592
Properties under development	398,026
Investment properties	272,354
Long term prepayment	1,320
Cash and bank balances	2,043
Pledged bank balances	932
Prepayments, deposits and other receivables	9,860
Trade payables	(201,909)
Tax payables	(1,174)
Accruals and other payables	(52,030)
Advances from customers	(67,792)
Amount due to related parties	(116,370)
Deferred tax liabilities	(51,134)
Total identifiable net assets at fair value	194,718
Non-controlling interests	(58,415)
	136,303
Goodwill on acquisition	35,915
Satisfied by cash	172,218

Notes to Consolidated Financial Statements

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33. BUSINESS COMBINATION (continued)

The Group incurred transaction costs of RMB964,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

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

	RMB'000
Cash consideration	(172,218)
Cash and bank balances acquired	2,043
Net outflow of cash and cash equivalents included in cash flows from investing activities	(170,175)
Transaction costs of the acquisition included in cash flows from operating activities	(964)
	(171,139)

Since the acquisition, Yudeyuan contributed RMB Nil to the Group's revenue and RMB5,865,000 loss to the consolidated profit for the year ended 31 December 2015.

Had the combination taken place at the beginning of the year, the revenue of the Group and profit of the Group for the year ended 31 December 2015 would have been RMB716,039,000 and RMB71,417,000 respectively. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

Notes to Consolidated 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:

2015

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Trade receivables	138,763	–	138,763
Available-for-sale investments	–	2,500	2,500
Financial assets included in prepayments, deposits and other receivables	11,517	–	11,517
Pledged bank balances	116,044	–	116,044
Cash and cash equivalents	909,894	–	909,894
	1,176,218	2,500	1,178,718

Financial liabilities

	Financial liabilities held for trading at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	255,696	255,696
Derivative financial instruments	2,164	–	2,164
Financial liabilities included in other payables and accruals	–	122,712	122,712
Interest-bearing bank and other borrowings	–	442,367	442,367
Corporate bonds	–	123,466	123,466
	2,164	944,241	946,405

Notes to Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2014

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Trade receivables	120,192	–	120,192
Available-for-sale investments	–	2,500	2,500
Financial assets included in prepayments, deposits and other receivables	4,994	–	4,994
Pledged bank balances	130,979	–	130,979
Cash and cash equivalents	969,208	–	969,208
	1,225,373	2,500	1,227,873

Financial liabilities

	Financial liabilities held for trading at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	94,895	94,895
Derivative financial instruments	2,264	–	2,264
Financial liabilities included in other payables and accruals	–	38,987	38,987
Interest-bearing bank and other borrowings	–	357,899	357,899
	2,264	491,781	494,045

Notes to Consolidated Financial Statements

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged bank balances, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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 fair values of the non-current portion of pledged deposits, corporate bonds, 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 interest-bearing bank and other borrowings as at 31 December 2015 was assessed to be insignificant.

The Group enters into derivative financial instruments with various counterparties, principally credit worthy financial institutions. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

	Fair value measurement using significant observable inputs (Level 2)	
	2015	2014
	RMB'000	RMB'000
Derivative financial instruments		
Interest rate swaps	**1,738**	1,823
Forward currency contract	**426**	441
	2,164	2,264

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2014: Nil).

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36. CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no significant contingent liabilities (2014: Nil).

37. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment, investment properties and properties under development outstanding at the end of the reporting period not provided for in the financial statements are as follows:

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**8,757**	10,786
Land use right	**–**	64,500
Investment properties and properties under development	**52,477**	–
	61,234	75,286
Authorised, but not contracted for:		
Property, plant and equipment	**268,484**	82,769
Investment properties and properties under development	**454,300**	–
	784,018	158,055

(b) Operating lease commitments

As lessor

The Group leases out its investment properties under operating lease arrangements on terms ranging from ten to twenty one years and with an option for renewal after the expiry dates, at which time all terms will be renegotiated.

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

	2015 RMB'000	2014 RMB'000
Within 1 year	**2,328**	–
After 1 year but within 5 years	**23,131**	–
After 5 years	**66,844**	–
	92,303	–

Notes to Consolidated Financial Statements

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37. COMMITMENTS (continued)

(b) Operating lease commitments (continued)

As lessee

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

	2015 RMB'000	2014 RMB'000
Within 1 year	**10,669**	15,908
After 1 year but within 5 years	**23,818**	36,162
After 5 years	**–**	4,333
	34,487	56,403

38. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank and other borrowings, which are secured by the assets of the Group, are included in note 27 to the financial statements. The time deposit of RMB546,000 (2014: RMB1,011,000) is pledged for issuance of letter of guarantee.

39. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Mr. Xiao Zhiyong and Ms. Ye Xiaohong are collectively the Controlling Shareholder of the Group. They are also considered to be related parties of the Group.

Fujian Wanhui Investment Co., Ltd. ("Wanhui Investment") is a company controlled by the Controlling Shareholder and considered to be a related party of the Group.

Notes to Consolidated Financial Statements

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39. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Transactions with related parties

The following transactions were carried out with related parties during the years ended 31 December 2015 and 2014:

		2015 RMB'000	2014 RMB'000
(i)	(Repayment to)/advances from the controlling shareholder:	**(8,092)**	7,801

(ii) The Group's bank borrowings which amounted to RMB5,000,000 as at 31 December 2015 (2014: RMB5,000,000) were guaranteed by the controlling shareholder.

(b) Balances with related parties

The Group had the following significant balances with its related parties as at 31 December 2015:

(i) Due to the controlling shareholder:

	2015 RMB'000	2014 RMB'000
Non-trade related		
– Mr. Xiao Zhiyong	**173**	7,801

Balances with the controlling shareholder were unsecured and non-interest-bearing and had no fixed repayment terms.

Notes to Consolidated Financial Statements

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39. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Compensation of key management personnel

	2015	2014
	RMB'000	RMB'000
Salaries and short-term employee benefits	**1,340**	3,348
Pension scheme contributions and social welfare	**36**	30
Total compensation paid to key management personnel	**1,376**	3,378

The emoluments of the senior management fell within the following bands:

	Number of individuals	
Emoluments bands	**2015**	2014
Nil to HK$1,000,000	**5**	4
HK$3,500,001 to HK$4,000,000	**–**	1

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

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to Consolidated Financial Statements

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group has no significant interest-bearing assets other than the cash and cash equivalents and pledged bank balances (note 23).

The Group's cash flow interest rate risk arises from bank loans and other borrowings denominated in US$ with a floating interest rate. The Group has used interest rate swaps to manage its exposure to interest rate risk.

The Group's fair value interest rate risk arises from corporate bonds in HK$ with fixed interest rate.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales denominated in US$ by operating units whose the functional currency is the RMB. Approximately 46% and 41% of the Group's sales for the years ended 31 December 2015 and 2014, respectively, were denominated in US$ and undertaken by these operating units.

The Group used forward currency contracts to manage its foreign currency risk.

Notes to Consolidated Financial Statements

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in US$ and HK$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to the change in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in basis points	**Increase/(decrease) in profit before tax**	
		2015	2014
		RMB'000	RMB'000
If RMB weakens against the US$	(100)	**1,435**	(58)
If RMB strengthens against the US$	100	**(1,435)**	58
If RMB weakens against the HK$	(100)	**(1,203)**	9
If RMB strengthens against the HK$	100	**1,203**	(9)

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.

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.

As at 31 December 2015 and 2014, all bank balances were deposited in creditworthy financial institutions without significant credit risk.

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/counterparty. As at 31 December 2015, the Group had certain concentrations of credit risk as 38% (2014: 39%) and 91% (2014: 97%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. As the major customers of the Group are all companies with world-famous brands, and long-term business relationship have been established by both parties and insurance was purchased to protect the Group against the potential losses from unrecovered trade receivables, the concentrations of credit risk are well managed by the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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.

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

	2015					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Interest-bearing bank and other borrowings	**–**	**134,475**	**320,484**	**–**	**–**	**454,959**
Corporate bonds	**–**	**–**	**7,924**	**131,390**	**–**	**139,314**
Trade payables	**186,121**	**69,576**	**–**	**–**	**–**	**255,697**
Derivative financial instruments	**–**	**426**	**1,738**	**–**	**–**	**2,164**
Other payables	**37,248**	**72,756**	**12,708**	**–**	**–**	**122,712**
	223,369	**277,233**	**342,854**	**131,390**	**–**	**974,846**

	2014					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	66,599	219,693	82,241	–	368,533
Trade payables	11,028	83,867	–	–	–	94,895
Derivative financial instruments	–	–	441	1,823	–	2,264
Other payables	12,769	14,174	5,900	6,144	–	38,987
	23,797	164,640	226,034	90,208	–	504,679

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2015.

The Group monitors capital using a gearing ratio, which is calculated by bank loans and other borrowings divided by the equity attributable to owners of the parent. The gearing ratio as at 31 December 2015 is 53.3% (2014: 35.8%).

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41. STATEMENT OF FINANCIAL POSITION FOR THE COMPANY

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		**170,886**	170,886
Amounts due from subsidiaries		**443,879**	356,325
Total non-current assets		**614,765**	527,211
CURRENT ASSETS			
Dividend receivable from subsidiaries		**25,376**	24,324
Prepayments, deposits and other receivables		**186**	176
Cash and cash equivalents		**40,378**	61
Total current assets		**65,940**	24,561
CURRENT LIABILITIES			
Amounts due to subsidiaries		**–**	11,398
Bank loan		**25,818**	–
Total current liabilities		**25,818**	11,398
Total assets less current liabilities		**654,887**	540,374
NON-CURRENT LIABILITIES			
Corporate bonds		**123,466**	–
Total non-current liabilities		**123,466**	–
Net Assets		**531,421**	540,374
EQUITY			
Share capital		**8,226**	8,226
Reserves	(a)	**523,195**	508,271
Proposed final dividend		**–**	23,877
Total equity		**531,421**	540,374

The Company's statement of position was approved and authorised for issue by the board of directors on 31 March 2016 and are signed on its behalf by:

Xiao Zhiyong *Director*	**Yang Qingyun** *Director*

Notes to Consolidated Financial Statements

31 December 2015

41. STATEMENT OF FINANCIAL POSITION FOR THE COMPANY (continued)

Note:

a) A summary of the Company's reserve is as follows:

	Contributed surplus*	Share premium	Capital redemption reserve	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	170,886	360,808	–	(11,899)	2,960	522,755
Total comprehensive income for the year	–	–	–	1,343	69,635	70,978
Repurchase of shares	–	(13,193)	48	–	–	(13,145)
Final 2013 dividend declared	–	–	–	–	(420)	(420)
Interim 2014 dividend	–	–	–	–	(48,020)	(48,020)
Proposed final 2014 dividend	–	–	–	–	(23,877)	(23,877)
At 31 December 2014 and 1 January 2015	170,886	347,615	48	(10,556)	278	508,271
Total comprehensive income for the year	**–**	**–**	**–**	**20,595**	**(5,671)**	**14,924**
At 31 December 2015	**170,886**	**347,615**	**48**	**10,039**	**(5,393)**	**523,195**

* *The contributed surplus arose when the Company acquired the entire issued share capital of Bolina (China) Holding Co., Ltd. at a consideration of RMB1 in connection with the reorganisation. This surplus represents the difference between the nominal value of the consideration and the value of net assets of the subsidiaries acquired.*

Notes to Consolidated Financial Statements

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42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the subsidiaries at 31 December 2015 are as follows:

Name	Place and date of incorporation/ registration and operations and type of legal entity	Authorised/registered/ paid-in/issued capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
漳州萬佳陶瓷工業有限公司 (Zhangzhou Wanjia Ceramic Industry Co., Ltd.)	Zhangzhou, the PRC 2002, limited liability company	Registered and paid-in capital of RMB30,000,000	–	100%	Manufacture and sale of sanitary ware and accessories
漳州萬暉潔具有限公司 (Zhangzhou Wanhui Sanitary Ware Co., Ltd.)	Zhangzhou, the PRC 2005, foreign invested company	Registered and paid-in capital of RMB311,100,000	–	100%	Investment holding, manufacture and sale of sanitary ware and accessories
Nelson Marketing International Limited	Hong Kong 2004, limited liability company	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
Bolina (China) Holding Co., Ltd.	BVI 2011, limited liability company	Issued capital of US$10	100%	–	Investment holding
天津市航標倉儲有限公司 (Tianjin Bolina Storage Co., Ltd.)	Tianjin, the PRC 2012, limited liability company	Registered and paid-in capital of RMB1,000,000	–	100%	Warehousing service, labor service, enterprise management service
西安航標廚衛有限公司 (Xi'an Bolina Kitchen & Bathroom Wares Co., Ltd.)	Xi'an, the PRC 2013, limited liability company	Registered and paid-in capital of RMB1,010,000	–	100%	Various services for sanitary ware, cabinets and accessories, research and development, technical
佛山市航標衛廚服務有限公司 (Foshan Bolina Kitchen & Bathroom Wares Service Co., Ltd.)	Foshan, the PRC 2013, limited liability company	Registered and paid-in capital of RMB1,010,000	–	100%	Various services for sanitary ware, cabinets and accessories

Notes to Consolidated Financial Statements

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42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (continued)

Name	Place and date of incorporation/ registration and operations and type of legal entity	Authorised/registered/ paid-in/issued capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
武漢萬暉航標衛廚服務有限公司 (Wuhan Wanhui Bolina Kitchen & Bathroom Wares Service Co., Ltd.)	Wuhan, the PRC 2013, limited liability company	Registered and paid-in capital of RMB1,000,000	–	100%	Various services for sanitary ware, cabinets and accessories
納爾遜(中國)衛廚有限公司 (Nelson (China) Bathroom and Kitchen Wares Co., Ltd.)	Zhangzhou, the PRC 2014, limited liability company	Registered and paid-in capital of RMB240,000,000	–	100%	Various services for sanitary ware, cabinets and accessories
漳州易佰通商務服務有限公司 (Zhangzhou Yibaitong Business Service Co., Ltd.)	Zhangzhou, the PRC 2014, limited liability company	Registered capital of RMB10,000,000 and paid-in capital of RMB4,200,000	–	85%	Enterprise business planning and consulting services
福建富祥置業有限公司 (Fujian Fuxiang Property Co., Ltd.)	Zhangzhou, the PRC 2014, limited liability company	Registered capital of RMB50,000,000, no paid-in capital	–	100%	Real estate development and management
福建裕德源置業有限公司 (Fujian Yudeyuan Property Co., Ltd)	Zhangzhou, the PRC 2012, limited liability company	Registered and paid-in capital of RMB50,000,000	–	70%	Real estate development and management

43. MATERIAL NON-CONTROLLING INTERESTS

Included in the consolidated statement of profit or loss and other comprehensive income, the loss attributed to the total non-controlling interest for the year ended 31 December 2015 was approximately RMB1,759,000, which was totally attributed to Fujian Yudeyuan Property Co., Ltd ("Yudeyuan"). There are no transactions with non-controlling interests.

Details of the Yudeyuan that have material non-controlling interests are set out below:

	2015 %
Percentage of equity interest held by non-controlling interests	**30**

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43. MATERIAL NON-CONTROLLING INTERESTS (continued)

Summarised financial information for the subsidiary as set out below:

Summarised statement of financial position of Yudeyuan

	2015 RMB'000
Non-current assets	518,874
Current assets	30,274
Total assets	549,148
Non-current liabilities	513,696
Equity	35,452

Summarised statement of profit or loss of Yudeyuan

	2015 RMB'000
Revenue	–
Loss before income tax	(5,865)
Taxation	–
Loss for the year	(5,865)
Other comprehensive income	–
Total comprehensive loss	(5,865)
Total comprehensive loss allocated to non-controlling interests	(1,759)

Summarised statement of cash flow of Yudeyuan

	2015 RMB'000
Net cash used in operating activities	(28,490)
Net cash used in investing activities	(19,104)
Net cash generated from financing activities	51,864
Net increase in cash	4,270

44. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2016.

Five Years Financial Summary

RESULTS

	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**716,039**	865,613	913,286	816,739	655,482
Gross profit	**285,492**	376,837	427,364	389,823	303,725
Profit before tax	**111,913**	217,643	280,685	282,709	215,155
Profit for the year attributable to the owners of the Company	**74,087**	165,880	211,274	246,246	160,394

ASSETS AND LIABILITIES

	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**2,296,236**	1,575,057	1,449,592	1,147,227	584,883
Total liabilities	**1,193,249**	574,291	495,778	289,962	341,576

Note:

The summary of the consolidated results of the Group for the year ended 31 December 2011 and of the assets and liabilities as at 31 December 2011 has been extracted from the Company's prospectus dated 29 June 2012. Such summary was prepared as if the current structure of the Group has been in existence throughout the financial year. The consolidated results of the Group for the years ended 31 December 2015, 2014, 2013 and 2012 and the consolidated assets and liabilities of the Group as at 31 December 2015, 31 December 2014, 31 December 2013 and 31 December 2012 are set out in the audited financial statements of current year, last year and the year before last year.