Royal FURNITURE 皇朝傢俬

ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1198

2016 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tse Kam Pang *(Chairman, Chief Executive Officer)*
Mr. Chen Hao
Mr. Tse Hok Kan (appointed on 1 February 2016)
Mr. Chan Wing Kit (appointed on 1 March 2016)
Mr. Tse Wun Cheung (resigned on 1 February 2016)

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Tse Sing Chau

AUDITOR

Ernst & Young

SOLICITORS

Jeffrey Mak Law Firm

PRINCIPAL BANKER

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

1198

INVESTOR RELATIONS

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

I herein present the annual results of Royale Furniture Holdings Limited ("Royale Furniture" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2016.

2016 REVIEW

Amid a relatively weak market and overall economy, the board of directors of the Group assessed the circumstances and implemented a series of effective reform measures in stages, including product positioning upgrade, market channel expansion, strategic brand promotion, energy consumption reduction, thereby achieving the goal of profit turnaround in 2016 after three consecutive years of losses for the Group.

2017 PROSPECT

In the coming year, the Group will continue to move forward its reform and aggressively expand business channels on top of its reform measures in 2016. Major measures will include continuous launches of a certain number of high-end new product series. Self accountability for profit and loss will be further implemented in different departments, particularly in frontline business units such as production and sales department to enhance operation efficiency, reduce operating costs and boost profitability. Following the launch of high-speed rail advertisement project in 2016, the Group will continue to put greater effort in brand promotion and will cooperate with CCTV simultaneously launching TV commercial on three channels, namely CCTV1, CCTV2 and CCTV13.

With relentless reforms, innovations and development in 2016, the Group laid a solid foundation for the pursuit of annual operation goals in 2017.

Reforms and innovations in 2016 brought us a bright outlook. Meanwhile, we strongly experienced that persistent and ongoing reform, development and innovations are the keys for us to reaching new height and making breakthroughs.

We reaped the fruits of reforms in 2016 and look forward to achieving better results through concerted efforts in 2017.

TSE Kam Pang
Chairman

Hong Kong, 28 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board has resolved not to declare a final dividend for the year ended 31 December 2016 (2015: Nil).

Closure of the Register of Members

The Register of Members of the Company will be closed from 31 May 2017 to 5 June 2017, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on 5 June 2017, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 29 May 2017.

FINANCIAL REVIEW

For the year ended 31 December 2016, the Group recorded revenue of HK$727.6 million (2015: HK$659.7 million), representing an increase of 10.3% from last year. The increase in revenue was due to the increase in premium distributors throughout the year.

Profit attributable to owners of the parent for the year was HK$43.2 million (2015: loss of HK$97.5million). The improvement was principally due to the increase in revenue, better gross profit contribution and decrease in expenditures.

For the year ended 31 December 2016, selling and distribution expenses reduced by 23.0% to approximately HK$89.5 million (2015: HK$116.2 million), which was mainly due to the Group has exercised better control on promotion and exhibition expenses. Administration expenses also decreased by 32.4% to HK$75.5 million (2015: HK$111.8 million), which was mainly due to the implementation of stringent cost control measures as well as streamlining the overall administrative processes. Finance costs during the year decreased by 15.7% to HK$20.1 million (2015: HK$23.8 million) as the Group paid lesser interest expenses as a result of the reduction of loans from financial institutions.

BUSINESS REVIEW

Despite the economy of China remained challenging, the Group was able to achieve a business turnaround and recorded profit attributable to owners of the parent of HK$43.2 million (2015: loss of HK$97.5 million).

New products with higher margin launched by the Group during the year were well accepted by the market. This resulted in increase of 11.5 percentage-point in the Group's overall gross profit margin from 16.7% for the year ended 31 December 2015 to 28.2% for the year ended 31 December 2016.

Sales and Network Management

During the year under review, New Franchisee Recruitment Team and Store Maintenance Team of the Group's sales department, functioned well in serving existing franchisees and engaging new ones, as well as managing shop images and operations.

Brand Management

Ms. Lin Chi Ling, a famous model and movie star in Asia, continued to be the Group's spokesperson and will feature in the Group's advertisements as well as other marketing activities to promote the Group's brand name.

The Group implemented a full dimensional advertising strategy by launching the "Royal Furniture Train" for high speed rail in China that runs along the Beijing-Guangzhou route. In addition, commercial advertisements of the Group were constantly played on the LED screens in the carriages that run along the Beijing-Shanghai route, as well as in the "Royal Furniture" exclusive lounges at 16 rail stations of the route, and the Group sponsored the 2016 Chinese Film Festival and the Fourth Shenzhen "Top Ten Chinese Films" commendation ceremony. This series of activities effectively enhanced the Group's brand awareness and provided consumers with the Group's product information. The Group will also work closely with both traditional and online media aiming to maintain our exposure to the public and to enhance our image as a household brand.

MANAGEMENT DISCUSSION AND ANALYSIS

Inventory and Prepayments, Deposits and Other Receivables

The Group's inventory remained stable at around HK$221 million for the years ended 31 December 2016 and 31 December 2015 respectively. Prepayments, deposits and other receivables decreased by 7.4% to HK$86.2 million (2015: HK$93.1 million). The decrease was mainly due to the settlement of advances paid to outsourcing factories during the year.

Working Capital Challenge

The Group had net current liabilities of HK$87.9 million by the end of the year (2015: HK$62.2 million). The Group will continue to take initiatives to improve its working capital.

Liquidity and Financial Resources

The Group maintained a cash and cash equivalents amounted to HK$103.5 million as at 31 December 2016 (2015: HK$89.8 million).

As at 31 December 2016, additional to the interest bearing bank and other borrowings amounted to HK$319.8 million (2015: HK$450.6 million), the Group had loans from a director, non-controlling interests and medium term bonds of HK$65.4 million (2015: loan from non-controlling interests of HK$38.1 million). As at the year end, the net debt divided by capital plus net debt of the Group was 32.0% (2015: 35.0%). Approximately, 75.6% of the Group's cash was denominated in Renminbi with the remaining balance was denominated in Hong Kong Dollars. The exposure to the foreign exchange rate fluctuation during the year has been minimal since both of our operating cash inflow and outflow are predominantly in Renminbi.

As at 31 December 2016, the Group's current ratio (current assets to current liabilities) decreased to 0.85 (2015: 0.89) and the net current liabilities amounted to HK$87.9 million (2015: net current liabilities HK$62.2 million).

PROSPECT

The turnaround in 2016 has proved that the Group's restructuring is in the right direction. The Group will continue its business strategies in enhancing its profitability, as well as sharpening its competitive edges to attain larger market share.

Further resources have been committed to enhance the recognition of its brand "Royal Furniture" among domestic consumers. In view of the market trend and the consumer demand for one-stop full-category shopping, the Group has made appropriate arrangements to get ready for its "Complete Household Solutions", in order to be a pioneer in the new market. Such that the Group may provide a one-stop solution for customers in respect of their overall household furniture, and fully satisfy their consumption needs in personal style in furniture.

While the consumption market in China is expected to remain weak, the Group is cautiously positive that it is on the right track in deepening its market penetration. Along with progressive improvement in quality of the franchise stores in 2017, the Group is expecting fruitful results for shareholders in the coming years.

CORPORATE GOVERNANCE REPORT

A. CORPORATE GOVERNANCE PRACTICES

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

The Corporate Governance Code (the "CG Code") is set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For the financial year of the Company ended 31 December 2016 (the "Year") under review, save as disclosed in this Corporate Governance Report, the Company has complied with the applicable code provisions (the"Code Provisions") and principles under the CG Code as set out in Appendix 14 to the Listing Rules on the Stock Exchange.

B. DIRECTORS' SECURITIES TRANSACTIONS

In accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with the Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code regarding the Directors' securities transactions during the Year.

C. THE BOARD

Roles and responsibilities

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Board Composition

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

*Executive directors (the “**Executive Directors**”):*
Mr. Tse Kam Pang *(Chairman and Chief Executive Officer)*
Mr. Chen Hao
Mr. Tse Hok Kan (appointed on 1 February 2016)
Mr. Chan Wing Kit (appointed on 1 March 2016)
Mr. Tse Wun Cheung (resigned on 1 February 2016)

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

As at 31 December 2016, the Board consisted of a total of seven members, including four Executive Directors, and three Independent Non-executive Directors. The name and biographical details of each Director and other senior management are set out on pages 19 to 21 of this annual report.

Chairman, Chief Executive Officer and Vice Chairman

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

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

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

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

In addition, Mr. Chen Hao, an Executive Director, is responsible for the day-to-day management, administration and operation of the Company. Mr. Tse Hok Kan, an Executive Director, is responsible for the development and marketing department of the Company. Mr. Chan Wing Kit, an Executive Director, is responsible for assisting the Chairman in formulating our growth strategy and effective running of the Board.

CORPORATE GOVERNANCE REPORT

Board meeting and procedure

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

During the Year, apart from the adhoc meetings and consents obtained by means of written resolutions of all the Board members, the Board has held seven scheduled meetings. The attendance of individual members is set out in the table below:

	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
Executive Directors				
Mr. Tse Kam Pang	7/7			
Mr. Chen Hao	7/7			
Mr. Tse Hok Kan (appointed on 1 February 2016)	6/7			
Mr. Chan Wing Kit (appointed on 1 March 2016)	4/7			
Mr. Tse Wun Cheung (resigned on 1 February 2016)	1/7			
Independent Non-executive Directors				
Dr. Donald H. Straszheim	7/7	2/2	3/3	2/2
Mr. Lau Chi Kit	7/7	2/2	3/3	2/2
Mr. Yue Man Yiu Matthew	7/7	2/2	3/3	2/2

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

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

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

Code provision A.4.1 provides that Non-executive Directors should be appointed for a specific term and subject to re-election. Dr. Donald H. Straszheim, the Independent Non-executive Director, has been reappointed with no fixed term of service on 5 June 2015. Mr. Lau Chi Kit, the Independent Non-executive Directors, has been re-appointed with no fixed term of service with the Company on 3 June 2016. Mr. Yue Man Yiu Matthew, the Independent Non-executive Directors, have been re-appointed with no fixed term of service with the Company on 6 June 2014. However, they are eligible for re-appointment and subject to retirement by rotation at least once every three years in accordance with the articles of association of the Company. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and it still considers the Independent Non-executive Directors to be independent.

CORPORATE GOVERNANCE REPORT

Skills, knowledge, experience and attributes of Directors

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

Division of responsibilities between the Board and management

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

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

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

Induction and training

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

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

CORPORATE GOVERNANCE REPORT

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

	Reading regulatory updates and directors' duties	Reading materials relating to business and industry	Attending professional briefings/seminars/ conferences relevant to directors' duties, regulatory updates and business
Executive Directors			
Mr. Tse Kam Pang	✓	✓	✓
Mr. Chen Hao	✓	✓	✓
Mr. Tse Hok Kan (appointed on 1 February 2016)	✓	✓	✓
Mr. Chan Wing Kit (appointed on 1 March 2016)	✓	✓	✓
Mr. Tse Wun Cheung (resigned on 1 February 2016)	✓	✓	✓
Independent Non-executive Directors			
Dr. Donald H. Straszheim	✓	✓	✓
Mr. Lau Chi Kit	✓	✓	✓
Mr. Yue Man Yiu Matthew	✓	✓	✓
Company Secretary			
Mr. Tse Sing Chau	✓	✓	✓

Directors' and officers' liability insurance and indemnity

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

Independent advice

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

Independence of Non-executive Directors

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

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

CORPORATE GOVERNANCE REPORT

Company secretary

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

During the Year, the Company Secretary, who is a full-time employee of the Company, has confirmed that he has taken no less than 15 hours of relevant professional training.

Relationships and associations among the Directors

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

D. BOARD COMMITTEES

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

Audit Committee

As at 31 December 2016, the audit committee of the Board (the "Audit Committee") consisted of three Independent Non-executive Directors, namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Dr. Donald H. Straszheim and Mr. Lau Chi Kit. The Audit Committee meets regularly, normally twice a year, with the senior financial management and meets with external auditor for final result reviews.

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

The main duties of the Audit Committee include the following:

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

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

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

CORPORATE GOVERNANCE REPORT

There were two meetings of the Audit Committee held in 2016. Details of the members' attendance record in the Year are set out on page 8 of this annual report. During the Year, the Audit Committee performed the following work (in summary):

(a) The Audit Committee assisted the Board in assuring the integrity of the Company's financial statements, including reviewed the financial results of the Group for the year ended 31 December 2015 and the interim results for the six months ended 30 June 2016. It evaluated and made recommendations to the Board about the appropriateness of accounting policies and practices, areas of judgment, compliance with Hong Kong Financial Reporting Standards and other legal requirements, and the results of external audit. It reviewed interim and annual financial statements of the Company, reported its work and findings to the Board and made recommendations on specific actions or decision for the Board to consider after each Audit Committee's meeting. Minutes of the Audit Committee's meetings were made available to all Directors for inspection.

(b) The Audit Committee also managed the relationship with the external auditor on behalf of the Board. It made recommendation to the Board on the appointment of the external auditor and the relevant terms of engagement, including remuneration. The Audit Committee was required to review the integrity, independence and objectivity of the external auditor. Also, it examined the external auditor' independence including its engagement of non-audit services. Based on the review of the Audit Committee, the Board was satisfied that the external auditor was independent. During 2016, there was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

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

Remuneration Committee

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

There were three meetings of the Remuneration Committee held in 2016. Details of the members attendance record in the Year are set out on page 8 of this annual report. Details of the remuneration of each Director for 2016 is set out in the Note 8 to this annual report.

CORPORATE GOVERNANCE REPORT

Roles and functions

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

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

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

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

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

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

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

Principles of remuneration policy

The principles of the Group's remuneration policy:

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

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

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

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

CORPORATE GOVERNANCE REPORT

Remuneration structure

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

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

(b) competitive benefit programs; and

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

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

Nomination Committee

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

There were two meetings of Nomination Committee meeting held in 2016. Details of the members attendance record in the Year are set out on page 8 of this annual report. The following is a summary of the work performed by the Nomination Committee during the Year:

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

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

Board Diversity Policy

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

E. ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Accounts

The Directors acknowledge their responsibility for the preparation of the accounts of the Group and ensure that the accounts are in accordance with statutory requirements and applicable accounting standards. The accounts are prepared on a going concern basis, the members of the Board have selected appropriate accounting policies and apart from those new and amended accounting policies disclosed in the notes to the accounts during the year ended 31 December 2016, have applied them consistently with previous financial periods. The statement of our auditor about their responsibility on the accounts is included in the Independent Auditor's Report. For the annual reports and accounts, the Company's finance department is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new accounting standards and requirements adopted by the Group have been discussed and approved by the Audit Committee.

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

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 31 to 35 of this annual report.

External Auditor's Remuneration

The Group's independent external auditor is Ernst & Young, Certified Public Accountants. Prior to the commencement of the audit of the Group's 2016 financial statements, the Audit Committee received written confirmation from the external auditor of its independence and objectivity. The external auditor refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. During the year ended 31 December 2016, the remuneration paid or payable to external auditor for audit services and non-audit services amounted to HK$1,680,000 (2015: HK$1,680,000) and Nil (2015:HK$175,000), respectively.

Risk Management and Internal Controls

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

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

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

The Board, through the internal audit department, has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2016 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

F. COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Constructive use of AGMs

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

The Chairman and a majority of the other Directors along with key executives and the external auditor attended the 2016 AGM and addressed concerns raised by a number of Shareholders about the resolutions being proposed and the Company's business. The Directors in attendance included those who were chairing the Audit Committee, the Nomination Committee and the Remuneration Committee on the date of the meeting.

Shareholders' Rights

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

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

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

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

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

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

(c) Enquiries to the Board

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

CORPORATE GOVERNANCE REPORT

G. INVESTOR RELATIONS

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

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

MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. TSE Kam Pang, aged 62, is the Chairman and the Chief Executive Officer of the Company. Prior to the founding of the Group, He previously held the position of the Deputy Managing Director in a public listed company in Hong Kong. He has over 27 years of experience in the international trade and China trade business.

Mr. CHEN Hao, aged 46, joined the main subsidiary of the Company in China in 2000 and is responsible for the marketing and manufacturing operation of the Company's major subsidiaries in China. He has extensive experience in enterprise management mainly focusing in marketing and manufacturing.

Mr. TSE Hok Kan, aged 33, holds a Master of Science in Accounting from The Hong Kong Polytechnic University and a Bachelor of Business Administration – joint major in accounting and finance from Simon Fraser University. He is a director of Hong Kong Furniture Association. He had worked for an international accounting firm before joining the Company in 2010. He has worked in the production department and is now taking a leading role in the development and marketing department of the Company.

Mr. CHAN Wing Kit, aged 45, holds a bachelor of commerce degree from Monash University in Australia. He has over fifteen years of business experience in overseas and in China. He also has experience in financial work. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia. He was the financial controller and company secretary of Chitaly Furniture Limited, a subsidiary of the Company engaging in investment holding and trading from October 2001 to May 2011. He was the export manager of the Company from May 2011 to September 2013. He was the company secretary and financial controller of the Company from October 2001 to May 2011. He served as an executive director and chief executive officer of Jia Meng Holdings Limited (stock code: 8101) ("Jia Meng"), a company which shares are listed on the Growth Enterprise Market of The Hong Kong Stock Exchange Limited, since its listing on 15 October 2013 until 26 January 2016.

Mr. TSE Wun Cheung, aged 45, holds a Bachelor Degree of Engineering majoring in Mechanical Engineering from The University of Hong Kong. He has extensive experience in enterprise management mainly focusing in manufacturing and purchasing. Mr. Tse is also a nephew of Mr. Tse Kam Pang, being the Chairman of the Company. He resigned as an Executive Director of the Company on 1 February 2016 due to his health reasons. He remains as a director of several subsidiaries of the Company.

MANAGEMENT PROFILE

Independent Non-executive Directors

Dr. Donald H. STRASZHEIM, aged 75, is the Senior Managing Director and Head of China Research for Evercore ISI, a boutique broker dealer headquartered in New York City, with a specialized research, sales and trading capability primarily serving large global institutional money managers. He holds a B.S., M.S. and Ph.D. from Purdue University, was a visiting Scholar at UCLA's Anderson Graduate School of Management, and a regular writer and commentator on economic, business and financial issues in the global media, and is a recognized China specialist. He has testified before the U.S. Congress on various economic issues. For many years he was Managing Principal of Straszheim Global Advisors, Inc., an economics, business, financial markets and public policy consultancy founded in 2001 with a focus on China, with offices in America and China. From 1985 to 1997, Dr. Straszheim was Chief Economist of Merrill Lynch and Co. ("Merrill Lynch"), in New York, guiding its worldwide economic research effort and serving as its primary economic spokesperson. He has also been the Vice Chairman of Roth Capital Partners, Chief Economist at Wharton Econometrics at the University of Pennsylvania, and Chief Economist of Weyerhaeuser Company.

Mr. LAU Chi Kit, aged 72, retired from The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in December 2000 after more than 35 years of service. Among the major positions in HSBC, he was the assistant general manager and head of Personal Banking Hong Kong and assistant general manager and head of Strategic Implementation, Asia-Pacific Region. He is a fellow of the Hong Kong Institute of Bankers ("Institute"). He was the chairman of the Institute's Executive Committee (from January 1999 to December 2000) and is currently the honorary advisor of the Institute's Executive Committee. He served as a member on a number of committees appointed by the Government of the Hong Kong Special Administration Region, including the Advisory Council on the Environment (from October 1998 to December 2001), the Advisory Committee on Human Resources Development in the Financial Services Sector (from June 2000 to May 2001), the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption (from January 2000 to December 2003), the Environment and Conservation Fund Committee (from August 2000 to October 2006), the Innovation and Technology Fund (Environment) Projects Vetting Committee (from January 2000 to December 2004) and the Law Reform Commission's Privacy Sub-committee (from February 1990 to March 2006). He also served as chairman of the Business Environment Council Limited (from September 1998 to December 2001). Currently, he is an executive director of Chinlink International Holdings Limited (stock code: 997), an independent non-executive director of Highlight China IoT International Limited (stock code: 1682), Century Sunshine Group Holdings Limited (stock code: 509), Leoch International Technology Limited (stock code: 842) and Janco Holdings Limited (stock code: 8035).

Mr. YUE Man Yiu Matthew, aged 55, has been the chief financial officer of Ko Shi Wai Holdings Limited since September 2009. He has been a director of China-Link Capital Management Limited since September 2009 and was the chief financial officer of the same firm from August 2005 to August 2009. He is currently an independent non-executive director of two Hong Kong listed companies, namely, Asia Cassava Resources Holdings Limited (Stock Code: 841) and China Suntien Green Energy Corporation Limited (Stock Code: 956). He graduated from the Chinese University of Hong Kong with a bachelor degree in business administration in 1984. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He has extensive experience in financial control, project analysis and management functions and has the related financial expertise.

MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. So Alan Wai Shing, aged 50, was appointed as Chief Financial Officer on 17 August 2016. He holds a bachelor's degree in business majoring accounting from the Edith Cowan University, Western Australia, Australia, in February 1993, and a master's degree in business administration from Open University of Hong Kong in December 2003 and is a practicing member of the Hong Kong Institute of Certified Public Accountants. He has over 24 years of experience in audit and accountancy work. Prior to joining the Group, he was also the Chief Financial Officer and Company Secretary of Huazhang Technology Holding Limited (stock code: 8276), a company which was listed on GEM, (a company now listed on the main board of the Stock Exchange with stock code of 1673) for the period from May 2012 to February 2014.

Mr. TSE Sing Chau, aged 44, is the financial controller and Company Secretary of the Company. He is responsible for the financial management, accounting and company secretarial duties of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor degree in commence. He has over 18 years financial management, accounting and auditing experience in Hong Kong listed companies and international accounting firms. He joined the Group in 2015

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2016 to the shareholder of the Company.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 103.

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

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 104. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 29 and 30 to the financial statements.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 39 and note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK$19.9 million.

CHARITABLE CONTRIBUTIONS

During the Year, the Group did not make any charitable contributions (2015: HK$Nil).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 9% of the total sales for the year and sales to the largest customer included therein amounted to 2%. Purchases from the Group's five largest suppliers accounted for approximately 14% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 4%.

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

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

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

RELATIONSHIP WITH STAKEHOLDERS

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

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

REPORT OF THE DIRECTORS

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

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

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

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

Business Risk

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

Financial Risk

The financial risk management of the Group are set out in note 38 to the financial statements.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:
Mr. Tse Kam Pang *(Chairman and Chief Executive Officer)*
Mr. Chen Hao
Mr. Tse Hok Kan (appointed on 1 February, 2016)
Mr. Chan Wing Kit (appointed on 1 March, 2016)
Mr. Tse Wun Cheung (resigned on 1 February, 2016)

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

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

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

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

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 19 to 21 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

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

PERMITTED INDEMNITY PROVISION

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

The Company has taken out and maintained Directors' liability insurance throughout the financial year ended 31 December 2016, which provides appropriate cover for the Directors. During the year ended 31 December 2016, no claims were made against the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 35 to the financial statements headed "Related party transactions" of this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Director of the Company or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2016.

REPORT OF THE DIRECTORS

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

As at 31 December 2016, the interests and short positions of the Directors and Chief Executive Officer in the shares (the "Shares") and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares and underlying shares of the Company:

		Number of Shares and underlying Shares held, capacity and nature of interest				
Name of Director	Notes	**Directly beneficially owned**	**Through controlled corporation**	**Option** (Note d)	**Total**	**Percentage of the Company's issued share capital**
Mr. Tse Kam Pang	(a)	105,183,769	395,609,042	21,329,000	522,121,811	29.63
Mr. Chen Hao	(b)	2,119,317	–	18,000,000	20,119,317	1.14
Mr. Chan Wing Kit	(c)	1,511,579	34,959	15,000,000	16,546,538	0.94
Dr. Donald H. Straszheim		–	–	5,263,547	5,263,547	0.30
Mr. Lau Chi Kit		–	–	5,260,000	5,260,000	0.30
Mr. Yue Man Yue Matthew		–	–	5,260,000	5,260,000	0.30

Notes:

(a) The 105,183,769 Shares are directly beneficially owned by Mr. Tse Kam Pang. Of these 395,609,042 Shares, 185,840,120 Shares are held by Crisana International Inc. ("Crisana") and 209,768,922 Shares are held by Charming Future Holdings Limited ("Charming Future"), both are companies wholly and beneficially owned by Mr. Tse Kam Pang, who is deemed to be interested in the aggregate of 395,609,042 Shares held by these companies.

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

(c) Mr. Chan Wing Kit was interested in 36,538 Shares of the Company of which 1,579 Shares were held by him personally and 34,959 Shares were held by World Partner Development Limited, a company whose entire issued share capital is owned by Mr. Chan Wing Kit. He was also deemed to be interested in 1,510,000 Shares of the Company held by his spouse.

(d) These represent Shares to be issued upon exercise of the share options granted to them, details of which are set out in note 30 to the financial statement.

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

Save as disclosed above, as at 31 December 2016, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 30 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

The following table discloses movements in the Company's share options outstanding during the year:

Name or category of participant	Number of share options: At 1 January 2016	Exercised during the year	Granted during the year	Lapsed during the year	At 31 December 2016	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share
Directors								
Donald H. Straszheim	1,263,547	–	–	–	1,263,547	20/7/2009	20/7/2010 to 19/7/2019	0.410
	–	–	4,000,000	–	4,000,000	22/6/2016	22/6/2017 to 21/6/2026	0.320
	1,263,547	–	4,000,000	–	5,263,547			
Lau Chi Kit	630,000	–	–	–	630,000	2/1/2013	2/1/2014 to 1/1/2023	0.790
	630,000	–	–	–	630,000	2/1/2013	2/1/2015 to 1/1/2023	0.790
	–	–	4,000,000	–	4,000,000	22/6/2016	22/6/2017to 21/6/2026	0.320
	1,260,000	–	4,000,000	–	5,260,000			
Tse Kam Pang	3,164,500	–	–	–	3,164,500	2/1/2013	2/1/2014 to 1/1/2023	0.790
	3,164,500	–	–	–	3,164,500	2/1/2013	2/1/2015 to 1/1/2023	0.790
	–	–	15,000,000	–	15,000,000	22/6/2016	22/6/2017 to 21/6/2026	0.320
	6,329,000	–	15,000,000	–	21,329,000			
Yue Man Yiu, Matthew	630,000	–	–	–	630,000	2/1/2013	2/1/2014 to 1/1/2023	0.790
	630,000	–	–	–	630,000	2/1/2013	2/1/2015 to 1/1/2023	0.790
	–	–	4,000,000	–	4,000,000	22/6/2016	22/6/2017to 21/6/2026	0.320
	1,260,000	–	4,000,000	–	5,260,000			
Chen Hao	3,000,000	–	–	–	3,000,000	17/4/2014	17/4/2015 to 16/4/2024	0.372
	–	–	15,000,000	–	15,000,000	22/6/2016	22/6/2017 to 21/6/2026	0.320
	3,000,000	–	15,000,000	–	18,000,000			
Chan Wing Kit	–	–	15,000,000	–	15,000,000	22/6/2016	22/6/2017 to 21/6/2026	0.320
Tse Wun Cheung#	2,250,000	–	–	–	2,250,000	2/1/2013	2/1/2014 to 1/1/2023	0.790
	2,250,000	–	–	–	2,250,000	2/1/2013	2/1/2015 to 1/1/2023	0.790
	–	–	8,000,000	–	8,000,000	22/6/2016	22/6/2017 to 21/6/2026	0.320
	4,500,000	–	8,000,000	–	12,500,000			

REPORT OF THE DIRECTORS

Name or category of participant	Number of share options: At 1 January 2016	Exercised during the year	Granted during the year	Lapsed during the year	At 31 December 2016	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share
Others								
Members of senior management	6,128,202	–	–	–	6,128,202	20/7/2009	20/7/2010 to 19/7/2019	0.410
and other employees of the	4,492,611	–	–	–	4,492,611	7/9/2012	7/9/2013 to 6/9/2022	0.730
Group	12,625,500	–	–	–	12,625,500	2/1/2013	2/1/2014 to 1/1/2023	0.790
	12,625,500	–	–	–	12,625,500	2/1/2013	2/1/2015 to 1/1/2023	0.790
	–	–	4,000,000	–	4,000,000	22/6/2016	22/6/2017 to 21/6/2026	0.320
In aggregate	53,484,360	–	69,000,000	–	122,484,360			

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

\# Mr. Tse Wun Cheung resigned as an Executive Director of the Company on 1 February 2016 and he remains as an employee of the Group.

OTHER MATTERS RELATING TO THE BOARD

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2016, the following persons who were interested in 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Crisana	(a)	Directly beneficially owned	185,840,120	10.54%
Charming Future	(b)	Directly beneficially owned	209,768,922	11.90%
Great Diamond Developments Limited	(c)	Directly beneficially owned	213,040,000	12.09%

Notes:

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

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

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

Save as disclosed above, as at 31 December 2016, no person, other than the Director and Chief Executive Officer of the Company, whose interests are set out in the section headed "Directors' and Chief Executive Officer's interests and short positions in shares, underlying shares and debentures" above, had any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

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

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2016 was 2,561 (2015: 2,373). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2016, there were 122,484,360 outstanding share options.

Details of the remuneration of the Directors are set out in note 8 to the financial statements. The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2016 were within the following bands:

Bands	**Number of Senior Management**
HK$100,000 to HK$500,000	1
HK$500,000 to HK$1,000,000	1
HK$1,000,000 to HK$1,500,000	–
Total:	2

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 6 to 18.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three Independent Non-executive Directors of the Company. The financial statements of the Group and of the Company for the year ended 31 December 2016 together with the notes attached thereto have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosure has been made.

REPORT OF THE DIRECTORS

AUDITOR

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

ON BEHALF OF THE BOARD

TSE Kam Pang
Chairman, Chief Executive Officer and Executive Director

Hong Kong
28 March 2017

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Royale Furniture Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 36 to 103, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Inventory provision	
The Group manufactures and sells furniture and is subject to changing consumer demands. Inventories at 31 December 2016 were amounted to approximately HK$221 million which was significant to the Group's consolidated statement of financial position. Judgement was required to assess the appropriate level of provisioning for items which may be sold below cost. Such judgements included management's expectations for future sales. The details of inventories were disclosed in note 20 to the financial statements. The estimation uncertainty of inventories was disclosed in note 3 to the financial statements.	We assessed the process, methods and assumptions used to develop the provision for slow moving, excess or obsolete items. This included evaluating the basis for the inventory provision adopted by management and the consistency of provisioning in line with policy and the rationale for the recording of specific provision. We tested the reliability of the underlying data used by management to calculate the provision for inventory obsolescence, including an aged inventory analysis showing last movements, by re-performing the ageing calculation. We evaluated the estimates made by management by considering the sales prices stated in the existing contracts with the Group's main commercial partners and by comparing to the historical records.
Impairment of property, plant and equipment	
The property, plant and equipment were significant parts of the assets of the Group and amounted to approximately HK$1,006 million or 49% of the Group's total assets. These property, plant and equipment have been identified into different cash-generating units (CGUs) in accordance with the Group's operation units. The determination of each of these CGUs involved significant management judgement. The Group maintains management reporting to capture the actual performance of these CGUs. In the case of impairment indicator is identified for any of the CGUs, the recoverability of these assets is calculated under both value-in-use and fair value less costs of disposal. Value-in-use is based on the discounted future cash flows model, which are inherently highly judgmental. The use of different modelling techniques and assumptions, such as growth rate, forecast margin, tenure of the projection, discount rate per CGU, could produce critical outcome on impairment test. Fair value less costs of disposal is by reference to available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The Group's disclosures about impairment of property plant and equipment are included in note 3. The details of the Group's property plant and equipment were given in note 13.	Our audit procedures included, amongst others, obtaining an understanding of management process of the CGU identification. For those property, plant and equipment items for which the impairment indicator was identified, we obtained from management their impairment assessment. Regarding management's estimation of the recoverable amounts of these property, plant and property based on value in use, we evaluated management's assumptions used in the determination of the respective value in use and fair value less costs of disposal by comparing to that of the historical records and benchmarking them to third party data. We also involved our valuation experts to assist us in the evaluation of the valuation methodology and the key parameters used by the Group.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Income tax	
The Group operates in a multinational tax environment and there are transfer pricing matters under the tax laws. Judgement is required in assessing the level of provisions required in respect of uncertain tax positions. At 31 December 2016, the Group has recognised provisions for uncertain tax provisions, offset by current tax assets, included within the current tax payable of HK$103 million (2015: HK$114million). For notes on income tax, see note 3 and note 10 of the financial statements.	Our procedures included, among others, assessing correspondence with relevant tax authorities with the assistance of our own local and international tax specialists in the assessment of the Group's tax positions. We evaluated the assumptions used by the Group to determine tax provisions, based on our knowledge of the Group's operations and of the application of the relevant legislation by the respective tax authorities. We also considered the adequacy of the Group's disclosures in respect of current and deferred taxes and uncertain tax positions.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Yuen Tao.

Ernst & Young
Certified Public Accountants
Hong Kong

28 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
REVENUE	5	**727,638**	659,698
Cost of sales		**(522,645)**	(549,739)
Gross profit		**204,993**	109,959
Other income and gains	5	**11,411**	30,385
Selling and distribution expenses		**(89,501)**	(116,169)
Administrative expenses		**(75,491)**	(111,752)
Finance costs	7	**(20,093)**	(23,822)
Share of losses of associates	18	**–**	(767)
Impairment of trade receivables, net	6	**(2,311)**	(658)
Other expenses	6	**(6,184)**	–
PROFIT/(LOSS) BEFORE TAX	6	**22,824**	(112,824)
Income tax credit	10	**11,669**	328
PROFIT/(LOSS) FOR THE YEAR		**34,493**	(112,496)
Attributable to:			
Owners of the parent		**43,204**	(97,463)
Non-controlling interests		**(8,711)**	(15,033)
		34,493	(112,496)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted		**HK2.45 cents**	HK(6.08) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**34,493**	(112,496)
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value	19	**–**	421
Reclassification adjustments for gains included in the consolidated statement of profit or loss – gain on disposal	19	**(421)**	(173)
		(421)	248
Exchange differences on translation of foreign operations		**(90,450)**	(63,347)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(90,871)**	(63,099)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gains on property revaluation		**111,621**	–
Income tax effect		**(27,906)**	–
		83,715	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**83,715**	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(7,156)**	(63,099)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**27,337**	(175,595)
Attributable to:			
Owners of the parent		**14,439**	(157,212)
Non-controlling interests		**12,898**	(18,383)
		27,337	(175,595)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,006,092**	1,293,665
Investment properties	14	**398,483**	–
Prepaid land lease payments	15	**74,036**	189,255
Goodwill	16	**67,730**	67,730
Intangible assets	17	**2,478**	1,025
Investments in associates	18	**–**	6,408
Total non-current assets		**1,548,819**	1,558,083
CURRENT ASSETS			
Inventories	20	**221,099**	221,039
Trade receivables	21	**34,465**	21,753
Available-for-sale investment	19	**3,215**	24,285
Pledged deposits	23	**39,737**	48,444
Prepayments, deposits and other receivables	22	**86,158**	93,073
Cash and cash equivalents	23	**103,516**	89,831
Total current assets		**488,190**	498,425
CURRENT LIABILITIES			
Trade payables	24	**107,450**	75,096
Other payables and accruals	25	**137,502**	120,679
Interest-bearing bank and other borrowings	27	**228,132**	250,692
Tax payable		**103,039**	114,146
Total current liabilities		**576,123**	560,613
NET CURRENT LIABILITIES		**(87,933)**	(62,188)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,460,886**	1,495,895

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,460,886**	1,495,895
NON-CURRENT LIABILITIES			
Medium term bonds	26	**15,833**	–
Interest-bearing bank and other borrowings	27	**91,709**	199,912
Loan from non-controlling interests	32	**37,565**	38,139
Loan from a director	35(c)	**12,000**	–
Deferred tax liabilities	28	**56,371**	30,304
Deferred government grant		**48,949**	54,201
Total non-current liabilities		**262,427**	322,556
Net assets		**1,198,459**	1,173,339
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**176,238**	176,238
Reserves	31	**948,829**	929,573
		1,125,067	1,105,811
Non-controlling interests		**73,392**	67,528
Total equity		**1,198,459**	1,173,339

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Notes	Share capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to owners of the parent										
At 1 January 2015		139,338	814,404	23,801	123,960	173	7,516	177,547	(126,865)	1,159,874	90,229	1,250,103
Loss for the year		–	–	–	–	–	–	–	(97,463)	(97,463)	(15,033)	(112,496)
Other comprehensive income for the year:												
Other comprehensive income to be reclassified to profit or loss in subsequent periods:												
Available-for-sale investments:												
Change in fair value of available-for-sale investments, net of tax	19	–	–	–	–	421	–	–	–	421	–	421
Reclassification adjustments for gains included in the consolidated statement of profit or loss	19	–	–	–	–	(173)	–	–	–	(173)	–	(173)
Exchange differences related to foreign operations		–	–	–	–	–	–	(59,997)	–	(59,997)	(3,350)	(63,347)
Total comprehensive loss for the year		–	–	–	–	248	–	(59,997)	(97,463)	(157,212)	(18,383)	(175,595)
Issue of shares	29	27,800	38,920	–	–	–	–	–	–	66,720	–	66,720
Shares issue expenses	29	–	(1,322)	–	–	–	–	–	–	(1,322)	–	(1,322)
Share options exercised	29	9,100	37,492	(12,740)	–	–	–	–	–	33,852	–	33,852
Equity-settled share option expense	30	–	–	3,899	–	–	–	–	–	3,899	–	3,899
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	(890)	–	–	–	–	890	–	–	–
Dividend paid to a non-controlling shareholder		–	–	–	–	–	–	–	–	–	(4,318)	(4,318)
Transfer from asset revaluation reserve		–	–	–	(33,423)	–	–	–	33,423	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	721	–	(721)	–	–	–
At 31 December 2015		176,238	889,494	14,070	90,537	421	8,237	117,550	(190,736)	1,105,811	67,528	1,173,339
At 1 January 2016		176,238	889,494	14,070	90,537	421	8,237	117,550	(190,736)	1,105,811	67,528	1,173,339
Profit for the year		–	–	–	–	–	–	–	43,204	43,204	(8,711)	34,493
Other comprehensive income for the year:												
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:												
Available-for-sale investment:												
Reclassification adjustments for gains included in the consolidated statement of profit or loss, net of tax												
– gain on disposal	19	–	–	–	–	(421)	–	–	–	(421)	–	(421)
Exchange differences related to foreign operations		–	–	–	–	–	–	(85,505)	–	(85,505)	(4,945)	(90,450)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:												
Gains on property revaluation, net of tax		–	–	–	57,161#	–	–	–	–	57,161	26,554	83,715
Total comprehensive income for the year		–	–	–	57,161	(421)	–	(85,505)	43,204	14,439	12,898	27,337
Equity-settled share option expense	30	–	–	4,817	–	–	–	–	–	4,817	–	4,817
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(7,034)	(7,034)
Transfer from asset revaluation reserve		–	–	–	(5,459)	–	–	–	5,459	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	298	–	(298)	–	–	–
At 31 December 2016		176,238	889,494*	18,887*	142,239*	–	8,535*	32,045*	(142,371)*	1,125,067	73,392	1,198,459

The asset revaluation reserve arose from a change in use from an owner-occupied property to investment properties carried at fair value on 31 December 2016.

* These reserve accounts comprise the consolidated reserves of HK$948,829,000 (2015: HK$929,573,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**22,824**	(112,824)
Adjustments for:			
Finance costs	7	**20,093**	23,822
Share of losses of associates	18	**–**	767
Interest income	5	**(94)**	(281)
Gain on disposal of items of property, plant and equipment	5	**(126)**	(21,172)
Gain on disposal of available-for-sale investments	5	**(866)**	(208)
Depreciation	6	**60,346**	68,109
Recognition of prepaid land lease payments	6	**4,412**	4,711
Amortisation of intangible assets	6	**540**	421
Write-down/(reversal of write-down) of inventories to net realisable value	6	**1,840**	(4,368)
Impairment of trade receivables	6	**2,311**	658
Equity-settled share option expense	6	**4,817**	3,899
Loss on disposal of associates	6	**6,184**	–
		122,281	(36,466)
(Increase)/decrease in inventories		**(21,148)**	57,959
(Increase)/decrease in trade receivables		**(16,524)**	2,912
Increase in prepayments, deposits and other receivables		**(10,025)**	(35,705)
Increase/(decrease) in trade payables		**31,697**	(486)
Increase/(decrease) in other payables and accruals		**10,287**	(37,743)
Cash generated from/(used in) operations		**116,568**	(49,529)
Income taxes paid		**(649)**	(234)
Net cash flows from/(used in) operating activities		**115,919**	(49,763)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Net cash flows from/(used in) operating activities		**115,919**	(49,763)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**94**	281
Purchases of items of property, plant and equipment	13	**(23,291)**	(69,459)
Additions to intangible assets	17	**(2,059)**	(589)
Additions to available-for-sale investment		**(3,215)**	(23,864)
Proceeds from disposal of items of property, plant and equipment		**688**	77,378
Decrease/(increase) in pledged deposits		**5,365**	(40,949)
Proceeds from disposal of available-for-sale investments		**23,611**	27,602
Net cash flows from/(used in) investing activities		**1,193**	(29,600)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	**–**	100,572
Share issue expenses	29	**–**	(1,322)
Issue of medium term bonds	26	**15,290**	–
New bank and other loans		**220,017**	317,510
Repayment of bank and other loans		**(321,141)**	(345,440)
Loan from a director		**12,000**	–
Loan from non-controlling interests		**–**	548
Interest paid		**(17,331)**	(20,433)
Dividends paid to non-controlling shareholders		**(7,034)**	(4,318)
Net cash flows (used in)/from financing activities		**(98,199)**	47,117
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**18,913**	(32,246)
Cash and cash equivalents at beginning of year		**89,831**	128,355
Effect of foreign exchange rate changes, net		**(5,228)**	(6,278)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**103,516**	89,831
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of cash flows	23	**103,516**	89,831

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries:

Particulars of the Company's principal subsidiaries as of 31 December 2016 are as follows:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries: (Continued)

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

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

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

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

2.1 BASIS OF PREPARATION

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.1 BASIS OF PREPARATION (Continued)

The Group recorded a consolidated net profit of HK$34,493,000 (2015: net loss HK$112,496,000) for the year ended 31 December 2016 and as at that date, the Group recorded net current liabilities of HK$87,933,000 (2015: HK$62,188,000). In view of these circumstances, the directors of the Company have given consideration to the future liquidity, future performance of the Group, the existing banking facilities and other available sources of finance in assessing whether the Group will have sufficient cash flows to continue as a going concern.

In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

a) The Group is taking measures to tighten cost controls over administrative and other operating expenses aiming at improving the working capital and cash flow position of the Group including closely monitoring the daily operating expenses.

b) The Group is restructuring the mix of its products with the aim to increase the portion of products with higher margin so as to attain profitable and positive cash flow operations. In addition, the Group from time to time reviews its investment projects and may adjust its investment strategies in order to enhance the cash flow position of the Group whenever it is necessary.

c) The Group is actively following up with its debtors on outstanding receivables.

The Directors of the Company have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2016 on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016 (the "Current Year"). A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the Current Year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

NOTES TO FINANCIAL STATEMENTS

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the Annual Improvements 2012-2014 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

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

   (i) the materiality requirements in HKAS 1;

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

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

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

   Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017

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

3 Effective for annual periods beginning on or after 1 January 2019

4 No mandatory effective date yet determined but available for adoption

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of HKFRS 9 are summarised as follows:

(a) Classification and measurement

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

(b) Impairment

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

NOTES TO FINANCIAL STATEMENTS

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

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

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

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

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

Business combinations and goodwill

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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.

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 investment properties and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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 stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the cost of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Intangible assets (other than goodwill)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

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

Patents and licences

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

Research and development costs

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

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

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

Leases

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

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 when:

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

Available-for-sale financial investments

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, other payables and accruals, medium term bonds, interest-bearing bank and other borrowings, loan from a director and a loan from non-controlling interests.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

Government grants

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

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

Revenue recognition

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

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

(b) maintenance service income, when the underlying services have been rendered;

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

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

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

Foreign currencies

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessor

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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.

Taxation

Current tax is provided at the amounts expected to be paid, and deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts, at the rates that have been enacted or substantively enacted by the balance sheet date.

The Group operates in a multinational tax environment and there are transfer pricing matters under the tax laws. The management applies a risk based approach in estimating the income tax liabilities. These estimates take into account, as appropriate, the probability that the Group would be able to obtain compensatory adjustments under international tax treaties. For details, please refer to note 10 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was HK$67,730,000 (2015: HK$67,730,000). Further details are given in note 16 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Recognition of a deferred tax liability for withholding taxes

The New PRC Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors in respect of its earnings, from 1 January 2008 or thereafter, shall be subject to withholding corporate income tax at a rate of 5% or 10%. The Group carefully evaluates the necessity of dividend distribution of its PRC subsidiaries out of profits earned after 1 January 2008 and makes decisions on such dividend distributions based on the senior management's judgement. For details, please refer to note 28 to the financial statements.

Estimation of fair value of investment properties

The Group engaged LCH (Asia-Pacific) surveys Limited, independent professionally qualified valuer, to perform the valuation of the Group's investment properties at the end of the reporting period.

In determine the fair value, the valuer has based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

As at 31 December 2016, the carrying amount of investment properties was HK$398,483,000 (2015: Nil). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Write-down of inventories

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and the write-down/write-back of the inventories in the period in which such estimate has been changed. During the year ended 31 December 2016, a write-down of the inventories of HK$1,840,000 (2015: reversal of a write down of HK$4,368,000) was recognised in the statement of profit or loss. As at 31 December 2016, the carrying amount of the write-down of the inventories amounted to HK$55,802,000 (2015: HK$53,962,000).

Impairment of trade receivables

The impairment of trade receivables is made based on the assessment of the recoverability of the trade receivables. The identification of doubtful debts requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the receivables and the impairment/write-back of trade receivables in the period in which the estimate has been changed. During the year ended 31 December 2016, impairment losses of HK$2,311,000 (2015: HK$658,000) of trade receivables were recognised in the statement of profit or loss. As at 31 December 2016, the carrying amount of the impairment losses of trade receivables was HK$10,819,000 (2015: HK$9,095,000). Further details are given in note 21 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

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

Share-based payments

The Group measures the costs of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the options, volatility and dividend yield and making assumptions about them. The assumptions and models used for the estimation of the fair value for share-based payments are disclosed in note 30 to the financial statements.

Fair values of financial instruments

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

Fair values of property, plant and equipment

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. As at 31 December 2016, the carrying amounts of the property, plant and equipment approximated to their fair values. For details, refer to note 13 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

4. OPERATING SEGMENT INFORMATION

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

Information about a major customer

No revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year (2015: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2016 **HK$'000**	2015 HK$'000
Revenue		
Sale of goods	**727,638**	659,698
Other income and gains		
Interest income	**94**	281
Gain on disposal of items of property, plant and equipment	**126**	21,172
Gain on disposal of available-for-sale investments	**866**	208
Sales of scraps	**1,511**	7,529
Government subsidy	**1,837**	1,195
Rental income	**6,977**	–
	11,411	30,385

NOTES TO FINANCIAL STATEMENTS

31 December 2016

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold		**520,805**	554,107
Depreciation	13	**60,346**	68,109
Recognition of prepaid land lease payments	15	**4,412**	4,711
Amortisation of intangible assets*	17	**540**	421
Research and development costs*		**9,887**	5,171
Minimum lease payments under operating leases		**23,752**	51,529
Auditor's remuneration		**1,680**	1,855
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**135,188**	139,590
Equity-settled share option expense	30	**4,817**	3,899
Pension scheme contributions		**8,246**	11,789
		148,251	155,278
Write-down/(reversal of write-down) of inventories to net realisable value**		**1,840**	(4,368)
Impairment of trade receivables, net	21	**2,311**	658
Bank interest income##		**(94)**	(281)
Gain on disposal of items of property, plant and equipment##		**(126)**	(21,172)
Loss on disposal of associates###		**6,184**	–

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

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

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

The loss on disposal of associates has been included in "Other expenses" on the face of the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

7. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on medium term bonds (note 26)	**543**	–
Interest on bank loans	**15,003**	15,008
Interest on a loan from non-controlling interests (note 32)	**2,762**	2,038
Interest on other loans	**1,785**	6,776
	20,093	23,822

8. DIRECTORS' REMUNERATION

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

	2016 HK$'000	2015 HK$'000
Fees	**1,941**	1,880
Other emoluments:		
Salaries, allowances and benefits in kind	**6,165**	4,289
Equity-settled share option expense	**3,978**	164
Pension scheme contributions	**–**	9
	12,084	6,342

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the Current Year is included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

8. DIRECTORS' REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
2016				
Executive directors:				
Mr. Tse Kam Pang	**300**	**2,850**	**1,047**	**4,197**
Mr. Tse Wun Cheung (resigned on 1 February 2016)	**25**	**75**	**–**	**100**
Mr. Tse Hok Kan* (appointed on 1 February 2016)	**275**	**1,080**	**–**	**1,355**
Mr. Chan Wing Kit* (appointed on 1 March 2016)	**250**	**1,020**	**1,047**	**2,317**
Mr. Chen Hao	**300**	**1,140**	**1,047**	**2,487**
	1,150	**6,165**	**3,141**	**10,456**
Independent non-executive directors:				
Dr. Donald H. Straszheim	**311**	**–**	**279**	**590**
Mr. Lau Chi Kit	**240**	**–**	**279**	**519**
Mr. Yue Man Yiu, Matthew	**240**	**–**	**279**	**519**
	791	**–**	**837**	**1,628**
	1,941	**6,165**	**3,978**	**12,084**

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

8. DIRECTORS' REMUNERATION (Continued)

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are four (2015: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the non-director highest paid employee for the year are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	**440**	492
Equity-settled share option expense	**559**	–
	999	492

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

	Number of employees	
	2016	2015
Nil to HK$1,000,000	**1**	1

NOTES TO FINANCIAL STATEMENTS

31 December 2016

10. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2015: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2016 HK$'000	2015 HK$'000
Current – PRC		
Charge for the year	**7,624**	1,511
Overprovision in prior years	**(17,454)**	–
Deferred (note 28)	**(1,839)**	(1,839)
Total tax credit for the year	**(11,669)**	(328)

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

	2016 HK$'000	**%**	2015 HK$'000	%
Profit/(loss) before tax	**22,824**		(112,824)	
Tax at the applicable tax rate at 25% (2015: 25%)	**5,706**	**25.0**	(28,206)	25.0
Lower tax rates for specific provinces or enacted by local authority	**(13,718)**	**(60.1)**	11,201	(9.9)
Loss attributable to associates	**–**	**–**	192	(0.2)
Adjustments in respect of current tax of previous periods	**(17,454)**	**(76.5)**	–	–
Income not subject to tax	**–**	**–**	(5,293)	4.7
Expenses not deductible for tax	**3,494**	**15.3**	3,085	(2.7)
Tax losses not recognised	**11,496**	**50.4**	18,802	(16.7)
Tax losses utilised from previous periods	**(1,193)**	**(5.2)**	(109)	0.1
Tax credit at the Group's effective rate	**(11,669)**	**(51.1)**	(328)	0.3

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$305,190,000 (2015: HK$280,421,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2016.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

11. DIVIDENDS

The directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2016 (2015: Nil).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings (2015: loss) per share is based on the profit (2015: loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,762,377,017 (2015: 1,604,264,688) in issue during the year.

No adjustment has been made to the basic earnings/loss per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings/loss per share amounts presented.

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

	2016 **HK$'000**	2015 HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/loss per share calculations	**43,204**	(97,463)

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings/loss per share calculations	**1,762,377,017**	1,604,264,688

NOTES TO FINANCIAL STATEMENTS

31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost or valuation	628,909	33,277	177,258	65,538	22,094	679,759	1,606,835
Accumulated depreciation	(99,871)	(22,887)	(132,144)	(42,124)	(16,144)	–	(313,170)
Net carrying amount	529,038	10,390	45,114	23,414	5,950	679,759	1,293,665
At 1 January 2016, net of accumulated depreciation	529,038	10,390	45,114	23,414	5,950	679,759	1,293,665
Additions	4,881	6,649	3,430	4,312	673	18,876	38,821
Surplus on revaluation	52,557	–	–	–	–	29,091	81,648
Transfers (note 14)	(193,117)	–	3,003	–	–	(77,802)	(267,916)
Disposals	–	(344)	(80)	(104)	(34)	–	(562)
Depreciation provided during the year	(30,442)	(7,142)	(12,969)	(8,284)	(1,509)	–	(60,346)
Exchange realignment	(29,893)	(435)	(3,309)	(1,073)	(222)	(44,286)	(79,218)
At 31 December 2016, net of accumulated depreciation	333,024	9,118	35,189	18,265	4,858	605,638	1,006,092
At 31 December 2016:							
Cost or valuation	433,880	35,255	167,669	64,334	21,402	605,638	1,328,178
Accumulated depreciation	(100,856)	(26,137)	(132,480)	(46,069)	(16,544)	–	(322,086)
Net carrying amount	333,024	9,118	35,189	18,265	4,858	605,638	1,006,092
Analysis of cost or valuation:							
At cost	–	35,255	167,669	64,334	21,402	605,638	894,298
At valuation	433,880	–	–	–	–	–	433,880
	433,880	35,255	167,669	64,334	21,402	605,638	1,328,178

NOTES TO FINANCIAL STATEMENTS

31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

At 31 December 2016, certain of the Group's buildings and construction in progress with a net carrying value of approximately HK$224,941,000 (2015: HK$289,546,000) and HK$473,935,000 (2015: HK$500,866,000), respectively, were pledged to banks to obtain bank loans (note 27).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

14. INVESTMENT PROPERTIES

	2016 **HK$'000**	2015 HK$'000
Carrying amount at 1 January	**–**	–
Transferred from properties, plant and equipment (note 13)	**267,916**	–
Transferred from prepaid land lease payments (note 15)	**130,567**	–
Carrying amount at 31 December	**398,483**	–

The Group's investment properties consist of two industrial properties in Mainland China which were subsequently measured at fair value. The directors of the Company have determined that the investment properties consist of one class of assets, i.e., industrial properties, based on the nature, characteristics and risk of each property. The Group's investment properties were revalued on 31 December 2016 based on the valuation by independent valuer LCH (Asia-Pacific) surveys Limited. Each year, the Group's property manager and the chief financial officer decide to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 33 to the financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2)** HK$'000	**Significant unobservable inputs (Level 3)** HK$'000	**Total** HK$'000
Recurring fair value measurement for:				
Industrial properties	–	–	398,483	398,483

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 (2015: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Industrial properties Total HK$'000
Carrying amount at 1 January 2015	–
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	–
Carrying amount at 31 December 2015 and 1 January 2016	–
Additions (from transfer)	398,483
Carrying amount at 31 December 2016	398,483

No fair value adjustment was recognised in profit or loss since the properties are transferred from property, plant and equipment and prepaid land lease payments to investment properties in 31 December 2016.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation technique	**Significant unobservable inputs**	**Range**
			2016
Industrial properties	Discounted cash flow method	Estimated rental value (per s.q.m. and per month)	6.5 – 15.5
		Rent growth (p.a.)	3% – 8%
		Long term vacancy rate	100%
		Discount rate	6% – 7%

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

NOTES TO FINANCIAL STATEMENTS

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14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

A significant increase (decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the long term vacancy rate and the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

15. PREPAID LAND LEASE PAYMENTS

	2016 HK$'000	2015 HK$'000
Carrying amount at 1 January	**193,966**	207,840
Recognised during the year	**(4,412)**	(4,711)
Surplus on revaluation	**29,973**	–
Transfer to investment properties (note 14)	**(130,567)**	–
Exchange realignment	**(12,755)**	(9,163)
Carrying amount at 31 December	**76,205**	193,966
Current portion included in prepayments, deposits and other receivables	**(2,169)**	(4,711)
Non-current portion	**74,036**	189,255

As at 31 December 2016, certain of the Group's land with a net carrying value of approximately HK$51,744,000 (2015: HK$61,242,000) were pledged to banks to obtain bank loans (note 27).

NOTES TO FINANCIAL STATEMENTS

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16. GOODWILL

	2016 HK$'000	2015 HK$'000
At 1 January:		
Cost	**307,213**	307,213
Accumulated impairment	**(239,483)**	(239,483)
Net carrying amount	**67,730**	67,730
At 31 December:		
Cost	**307,213**	307,213
Accumulated impairment	**(239,483)**	(239,483)
Net carrying amount	**67,730**	67,730

Impairment testing of goodwill

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

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

Assumptions were used in the value in use calculation of the home furniture cash-generating unit for 31 December 2016 and 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

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

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17. INTANGIBLE ASSETS

	Patents and licences	
	2016	2015
	HK$'000	HK$'000
At 1 January:		
Cost	**9,921**	9,768
Accumulated amortisation	**(8,896)**	(8,871)
Net carrying amount	**1,025**	897
Cost at 1 January, net of accumulated amortisation	**1,025**	897
Additions	**2,059**	589
Amortisation provided during the year	**(540)**	(421)
Exchange realignment	**(66)**	(40)
Cost at 31 December, net of accumulated amortisation	**2,478**	1,025
At 31 December:		
Cost	**11,341**	9,921
Accumulated amortisation	**(8,863)**	(8,896)
Net carrying amount	**2,478**	1,025

18. INVESTMENTS IN ASSOCIATES

	2016	2015
	HK$'000	HK$'000
Unlisted shares, at cost	**–**	2,054
Share of net assets	**–**	(1,466)
Goodwill on acquisition	**–**	6,931
	–	7,519
Loan to associates	**–**	14,764
Provision for impairment	**–**	(15,875)
	–	6,408

During the year, the Group fully disposed of the shares of the associates, resulting in a loss on disposal of HK$6,184,000.

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19. AVAILABLE-FOR-SALE INVESTMENT

	2016 HK$'000	2015 HK$'000
Current		
Unlisted investment, at fair value	**3,215**	24,285

During the year, no gross gain in respect of the Group's available-for-sale investment was recognised in other comprehensive income (2015: HK$421,000). An amount of HK$421,000 (2015: HK$173,000) was reclassified from other comprehensive income to the statement of profit or loss for the year upon disposal.

As at 31 December 2015, the unlisted investment had a term of less than one year and was pledged to bank to obtain the bank loan (note 27). As at 31 December 2016 and 2015, the fair value of the unlisted investment was based on the expected rate of return, credit spread and liquidity spread implied by the purchase price at the issue date.

20. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**52,081**	57,731
Work in progress	**39,632**	40,418
Finished goods	**129,386**	122,890
	221,099	221,039

21. TRADE RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**45,284**	30,848
Impairment	**(10,819)**	(9,095)
	34,465	21,753

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balance. Trade receivables are non-interest-bearing.

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21. TRADE RECEIVABLES (Continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2016 HK$'000	2015 HK$'000
Within 1 month	28,490	16,533
1 to 3 months	446	1,140
3 to 6 months	5,473	3,834
over 6 months	56	246
	34,465	21,753

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

	2016 HK$'000	2015 HK$'000
At beginning of year	9,095	8,831
Impairment losses recognised	2,311	658
Exchange realignment	(587)	(394)
	10,819	9,095

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

	2016 HK$'000	2015 HK$'000
Neither past due nor impaired	28,936	17,673
Past due but not impaired	5,529	4,080
	34,465	21,753

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

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

At 31 December 2016, there was no trade receivables (2015: HK$621,000) due from the Group's associates, which are repayable on credit terms similar to those offered to the major customers of the Group.

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepayments	**55,565**	60,338
Deposits and other receivables	**30,593**	32,735
	86,158	93,073

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

23. CASH AND CASH EQUIVALENTS

	2016 HK$'000	2015 HK$'000
Cash and bank balances	**103,516**	89,831
Time deposits	**39,737**	48,444
	143,253	138,275
Less: Pledged for interest-bearing bank loans (note 27)	**(39,737)**	(48,444)
Cash and cash equivalents	**103,516**	89,831

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$78,267,000 (2015: HK$81,926,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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24. TRADE PAYABLES

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

	2016 **HK$'000**	2015 HK$'000
Within 1 month	**60,598**	43,109
1 to 3 months	**28,336**	20,682
3 to 6 months	**13,807**	8,650
6 to 12 months	**2,026**	953
More than 1 year	**2,683**	1,702
	107,450	75,096

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

25. OTHER PAYABLES AND ACCRUALS

	2016 **HK$'000**	2015 HK$'000
Advances from customers	**39,080**	40,149
Other payables	**88,645**	69,612
Accruals	**9,777**	10,918
	137,502	120,679

26. MEDIUM TERM BONDS

On 5 February 2016, the Company established a medium term bonds programme with a nominal value of HK$10,000,000 each. As at 31 December 2016, the Company has issued the medium term bonds (the "Bonds") with principal amount in aggregate of HK$420,000,000. The Bonds are non-callable until 5 February 2025 and non-puttable until 5 February 2020. Interest on the outstanding bonds will be payable annually in arrears at the interest rate of 0.1% per annum first payable on 5 February 2018 and last payable on 5 February 2063 and will mature on 5 February 2064. The Bonds were amortised at the effective interest method by applying the effective interest rate ranging from 8.14% to 8.86% per annum.

The fair value of the medium term bonds was estimated at the issuance date by discounting the expected future cash flows using an equivalent market interest rate for a similar bond taking into consideration the Group's own credit and liquidity risk.

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26. MEDIUM TERM BONDS (Continued)

The medium term bonds recognised in the statement of financial position were calculated as follows:

	2016 **HK$'000**	2015 HK$'000
Carrying amount at 1 January	**–**	–
Additions	**15,290**	–
Accrued Interest expenses	**543**	–
Carrying amount at 31 December	**15,833**	–

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**1.7+HIBOR – 5.66**	**2017**	**205,529**	1.7+HIBOR – 6.15	2016	223,845
Current portion of long term bank loans – secured	**5.40**	**2017**	**22,603**	7.04	2016	26,847
			228,132			250,692
Non-current						
Bank loans – secured	**5.40**	**2018 – 2019**	**37,672**	7.04	2017 – 2019	72,486
Other loan – unsecured	**5 – 10**	**2018**	**54,037**	5 – 10	2017	127,426
			91,709			199,912
			319,841			450,604

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

	2016 HK$'000	2015 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**228,132**	250,692
In the second year	**30,137**	26,176
In the third to fifth years, inclusive	**7,535**	46,310
	265,804	323,178
Analysed into:		
Other borrowings repayable:		
In the second year	**54,037**	127,426
	319,841	450,604

Notes:

(i) Certain of the Group's bank loans were secured by:

(a) the pledge of certain of the Group's buildings and the construction in progress, which had aggregate carrying values at the end of the reporting period of approximately HK$224,941,000 (2015: HK$289,546,000) and HK$473,935,000 (2015: HK$500,866,000), respectively (note 13);

(b) the pledge of certain of the Group's prepaid land lease payments, which had an aggregate carrying value at the end of the reporting period of approximately HK$51,744,000 (2015: HK$61,242,000) (note 15);

(c) the pledge of the Group's time deposits amounting to HK$39,737,000 (2015: HK$48,444,000) (note 23);and

(d) as at 31 December 2015, the pledge of the Group's current available-for-sale investment with a net carrying value of HK$24,285,000 (note 19).

(ii) As at 31 December 2016, bank loans and other loans denominated in Hong Kong dollars and RMB amounted to HK$93,480,000 and HK$226,361,000, respectively.

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28. DEFERRED TAX LIABILITIES

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

	Revaluation of prepaid land lease payments	Revaluation of property, plant and equipment	Fair value adjustments arising from acquisition of a subsidiary	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2015	–	36,658	777	37,435
Deferred tax credited to other comprehensive income during the year	–	(5,292)	–	(5,292)
Deferred tax credited to the statement of profit or loss during the year (note 10)	–	(1,821)	(18)	(1,839)
Gross deferred tax liabilities at 31 December 2015 and 1 January 2016	–	29,545	759	30,304
Deferred tax charged to other comprehensive income during the year	7,494	20,412	–	27,906
Deferred tax credited to the statement of profit or loss during the year (note 10)	–	(1,821)	(18)	(1,839)
Gross deferred tax liabilities at 31 December 2016	7,494	48,136	741	56,371

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of HK$4,741,000 (2015: HK$1,765,000) that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$474,000 at 31 December 2016 (2015: HK$177,000).

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29. SHARE CAPITAL

	2016 HK$'000	2015 HK$'000
Authorised:		
2,000,000,000 (2015: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,762,377,017 (2015: 1,762,377,017) ordinary shares of HK$0.10 each	**176,238**	176,238

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

	Notes	**Number of shares in issue**	**Share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2015		1,393,377,017	139,338	814,404	953,742
Issue of shares	(a)	278,000,000	27,800	38,920	66,720
Shares issue expenses		–	–	(1,322)	(1,322)
Share option exercised	(b)	91,000,000	9,100	37,492	46,592
At 31 December 2015, 1 January 2016, and 31 December 2016		1,762,377,017	176,238	889,494	1,065,732

Notes:

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

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

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30. SHARE OPTION SCHEME

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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30. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

	2016 Weighted average exercise price HK$ per share	**2016** Number of options '000	2015 Weighted average exercise price HK$ per share	2015 Number of options '000
At 1 January	**0.71**	**53,484**	0.50	146,748
Granted during the year	**0.32**	**69,000**	–	–
Exercised during the year	**–**	**–**	0.37	(91,000)
Lapsed during the year	**–**	**–**	0.95	(2,264)
At 31 December	**0.49**	**122,484**	0.71	53,484

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.49 per share (2015: HK$0.71 per share).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

31 December 2016

Date of grant	**Number of options '000**	**Exercise price HK$ per share**	**Exercise period**
20 July 2009	**7,391**	**0.41**	**20 July 2010 to 19 July 2019**
7 September 2012	**4,493**	**0.73**	**7 September 2013 to 6 September 2022**
2 January 2013	**19,300**	**0.79**	**2 January 2014 to 1 January 2023**
2 January 2013	**19,300**	**0.79**	**2 January 2015 to 1 January 2023**
17 April 2014	**3,000**	**0.372**	**17 April 2015 to 16 April 2024**
22 June 2016	**69,000**	**0.32**	**22 June 2017 to 21 June 2026**
	122,484		

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30. SHARE OPTION SCHEME (Continued)

31 December 2015

Date of grant	Number of options '000	Exercise price HK$ per share	Exercise period
20 July 2009	7,391	0.41	20 July 2010 to 19 July 2019
7 September 2012	4,493	0.73	7 September 2013 to 6 September 2022
2 January 2013	19,300	0.79	2 January 2014 to 1 January 2023
2 January 2013	19,300	0.79	2 January 2015 to 1 January 2023
17 April 2014	3,000	0.372	17 April 2015 to 16 April 2024
	53,484		

The fair value of the share options granted during the year was HK$9,110,000 (HK$0.13 each) (2015: Nil), of which the Group recognised a share option expense of HK$4,817,000 (2015: HK$3,899,000) during the year ended 31 December 2016.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2016
Dividend yield (%)	**–**
Expected volatility (%)	**65**
Historical volatility (%)	**65**
Risk-free interest rate (%)	**0.59 – 0.66**
Expected life of options (year)	**2**
Weighted average share price (HK$ per share)	**0.32**

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

At the end of the reporting period, the Company had 122,484,360 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 122,484,360 additional ordinary shares of the Company and additional share capital of HK$12,248,000 and share premium of HK$45,974,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 122,484,360 share options outstanding under the Scheme, which represented approximately 6.95% of the Company's shares in issue as at that date.

According to the scheme limit of the 2012 scheme as refreshed on the annual general meeting of the Company held on 6 June 2014, the Company may further grant 70,337,701 (2015: 139,337,701) share options, representing approximately 3.99% (2015: 7.91%) of the Company's shares in issue as at 31 December 2016.

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31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 40 of the financial statements.

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

32. LOAN FROM NON-CONTROLLING INTERESTS

The loan from non-controlling interests is unsecured, bears interest at a rate of 6.15% per annum and will not be repayable in one year. As at the end of the reporting period, included in the outstanding balance with the non-controlling interests was an amount of HK$2,762,000 (2015: HK$2,038,000), which was the accrued interest for the loan.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms mainly ranging from five to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**17,045**	–
In the second to fifth years, inclusive	**73,046**	–
After five years	**115,033**	–
	205,124	–

(b) As lessee

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

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**12,890**	15,410
In the second to fifth years, inclusive	**12,397**	24,087
After five years	**1,581**	4,196
	26,868	43,693

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34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2016 HK$'000	2015 HK$'000
Authorised, but not contracted for:		
Land and buildings	**10,000**	10,000

35. RELATED PARTY TRANSACTIONS

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

		2016 HK$'000	2015 HK$'000
Associates:			
Sales of products	(i)	**–**	1,703

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

(b) Compensation of key management personnel of the Group

	2016 HK$'000	2015 HK$'000
Short term employee benefits	**8,106**	6,169
Equity-settled share option benefits	**3,978**	164
Pension scheme contributions	**–**	9
Total compensation paid to key management personnel	**12,084**	6,342

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

(c) Loans from a director

Name	**2016 HK$'000**	2015 HK$'000
Mr. Tse Kam Pang	**12,000**	–

Mr. Tse Kam Pang is one of the directors and also the Chairman of the Company. As at 31 December 2016, loans with an aggregate amount of HK$12,000,000 are unsecured, interest-free and not repayable within the next twelve months.

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36. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2016	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivables	**34,465**	**–**	**34,465**
Available-for-sale investment	**–**	**3,215**	**3,215**
Financial assets included in prepayments, deposits and other receivables (note 22)	**30,593**	**–**	**30,593**
Pledged deposits	**39,737**	**–**	**39,737**
Cash and cash equivalents	**103,516**	**–**	**103,516**
	208,311	**3,215**	**211,526**

2015	Loans and receivables HK$'000	Available–for-sale financial assets HK$'000	Total HK$'000
Trade receivables	21,753	–	21,753
Available-for-sale investments	–	24,285	24,285
Financial assets included in prepayments, deposits and other receivables (note 22)	32,735	–	32,735
Pledged deposits	48,444	–	48,444
Cash and cash equivalents	89,831	–	89,831
	192,763	24,285	217,048

Financial liabilities

	2016 Financial liabilities at amortised cost HK$'000	2015 Financial liabilities at amortised cost HK$'000
Trade payables	**107,450**	75,096
Financial liabilities included in other payables and accruals	**79,799**	63,343
Medium term bonds	**15,833**	–
Interest-bearing bank and other borrowings	**319,841**	450,604
Loan from non-controlling interests	**37,565**	38,139
Loan from a director	**12,000**	–
	572,488	627,182

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37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

The fair values of the non-current portion of interest-bearing bank and other borrowings, medium term bonds, loan from non-controlling interests, and loan from a director have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the interest-bearing bank and other borrowings as at 31 December 2016 was assessed to be insignificant.

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

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(i) Interest rate risk

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

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

2016	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
RMB	25	(269)	–
RMB	(25)	269	–

NOTES TO FINANCIAL STATEMENTS

31 December 2016

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(i) Interest rate risk (Continued)

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

* Excluding retained profits

(ii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 4.6% (2015: 4.7%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% (2015: 100%) of costs are denominated in the units' functional currencies. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group does not enter into any hedge derivatives.

(iii) Credit risk

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

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

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

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

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31 December 2016

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iv) 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, was as follows:

	2016		
	Less than one year HK$'000	**Over one year HK$'000**	**Total HK$'000**
Trade payables	**107,450**	**–**	**107,450**
Other payables and accruals	**79,799**	**–**	**79,799**
Medium term bonds	**–**	**439,740**	**439,740**
Interest-bearing bank and other borrowings	**240,713**	**95,655**	**336,368**
Loan from non-controlling interests	**–**	**41,531**	**41,531**
Loan from a director	**–**	**12,000**	**12,000**
	427,962	**588,926**	**1,016,888**

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes medium term bonds, interest-bearing bank and other borrowings, trade payables and other payables and accruals, loan from non-controlling interests and loan from a director, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2016 **HK$'000**	2015 HK$'000
Trade payables	**107,450**	75,096
Other payables and accruals	**137,502**	120,679
Medium term bonds	**15,833**	–
Interest-bearing bank and other borrowings	**319,841**	450,604
Loan from non-controlling interests	**37,565**	38,139
Loan from a director	**12,000**	–
Less: Cash and cash equivalents	**(103,516)**	(89,831)
Net debt	**526,675**	594,687
Equity attributable to owners of the parent	**1,125,067**	1,105,811
Capital and net debt	**1,651,742**	1,700,498
Gearing ratio	**32%**	35%

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39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2016 **HK$'000**	2015 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,160,291**	1,152,461
CURRENT ASSETS		
Prepayments	**284**	223
Cash and cash equivalents	**181**	27
Total current assets	**465**	250
CURRENT LIABILITIES		
Other payables and accruals	**5,221**	2,100
Total current liabilities	**5,221**	2,100
NET CURRENT LIABILITIES	**(4,756)**	(1,850)
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,155,535**	1,150,611
NON-CURRENT LIABILITIES		
Medium term bonds	**15,833**	–
Interest-bearing other borrowings	**40,000**	40,000
Total non-current liabilities	**55,833**	40,000
Net assets	**1,099,702**	1,110,611
EQUITY		
Share capital	**176,238**	176,238
Reserves (note)	**923,464**	934,373
Total equity	**1,099,702**	1,110,611

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

Note:

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

	Share premium account HK$'000	Contributed surplus* HK$'000	Share option reserve** HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2015	814,404	45,144	23,801	(2,822)	880,527
Loss and total comprehensive loss for the year	–	–	–	(12,403)	(12,403)
Equity-settled share option expense	–	–	3,899	–	3,899
Issue of shares	38,920	–	–	–	38,920
Shares issue expenses	(1,322)	–	–	–	(1,322)
Share options exercised	37,492	–	(12,740)	–	24,752
Lapse of share options	–	–	(890)	890	–
At 31 December 2015	889,494	45,144	14,070	(14,335)	934,373
Loss and total comprehensive loss for the year	–	–	–	(10,908)	(10,908)
Equity-settled share option expense	–	–	4,817	–	4,817
At 31 December 2016	889,494	45,144	18,887	(25,243)	928,282

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

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below:

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**727,638**	659,698	918,154	994,032	1,063,736
Gross profit	**204,993**	109,959	165,149	96,466	310,361
PROFIT/(LOSS) BEFORE TAX	**22,824**	(112,824)	(162,817)	(465,640)	33,909
Income tax credit/(expense)	**11,669**	328	(224)	(4,475)	(8,895)
PROFIT/(LOSS) FOR THE YEAR	**34,493**	(112,496)	(163,041)	(470,115)	25,014
Attributable to:					
Owners of the parent	**43,204**	(97,463)	(151,646)	(455,793)	21,629
Non-controlling interests	**(8,711)**	(15,033)	(11,395)	(14,322)	3,385
	34,493	(112,496)	(163,041)	(470,115)	25,014

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2016	2015	2014	2013	2012
TOTAL ASSETS	**2,037,009**	2,056,508	2,230,159	2,425,852	2,778,375
TOTAL LIABILITIES	**(838,550)**	(883,169)	(980,056)	(980,217)	(1,002,295)
NON-CONTROLLING INTERESTS	**(73,392)**	(67,528)	(90,229)	(104,430)	(114,896)
	1,125,067	1,105,811	1,159,874	1,341,205	1,661,184