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ANNUAL REPORT 2016

China (ZhongShan) Shenzhou Space Park Project
中國（中山）神舟航天樂園項目

中 國 家 居 控 股 有 限 公 司
China Household Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 692)

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CORPORATE INFORMATION

DIRECTORS

Executive directors:
Mr. Li Zhixiong
Mr. Fu Zhenjun
Mr. Kuang Yuanwei

Non-executive director:
Mr. Li Dikang

Independent non-executive directors:
Dr. Loke Yu
Mr. Lin Xuebin
Mr. Yu Bingguang

COMPANY SECRETARY

Mr. Yuen Kwok Kuen

SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

Elite Partners CPA Limited
Certified Public Accountants
10/F., 8 Observatory Road,
Tsim Sha Tsui
Hong Kong

PRINCIPAL BANKERS

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

LEGAL ADVISORS

Tang Tso & Lau

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

To Shareholders,

On behalf of the board of directors of the Company, I hereby present the annual report for the year ended 31 December 2016.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a net loss attributable to equity holders of the Company of HK$341,528,000 for the year as compared with HK$1,086,984,000 in previous year. This is a remarkable improvement after the implementation of turn-around strategy.

The Group's revenue and gross profit were HK$872,351,000 and HK$172,817,000 respectively, compared to HK$1,152,101,000 and HK$329,794,000 in the previous year. This was due to continual keen competition in the household business in China.

Selling and distribution expenses and administrative expenses were HK$40,096,000 and HK$174,552,000 respectively, as compared to HK$68,741,000 and HK$272,545,000 in previous year. The cost saving was mainly due to the decrease of staff cost from HK$71,953,000 in previous year to HK$46,096,000 for the year and the significant decrease in amortization of intangible assets from HK$86,152,000 in previous year to HK$28,400,000 this year.

Other income amounted to HK$42,758,000, of which was an amount of HK$40,921,000 cash received from the placement of consideration shares recovered from the acquisition of China New Oriental Household Holding Limited, the intelligent household system distribution business.

Other gain and losses also decreased from HK$895,162,000 in previous year to HK$209,326,000 this year.

As for the acquisition of Noble Wonderland, we recorded a HK$343,448,000 impairment on the intangible asset related to the intelligent household system distribution business and on the other hand recorded a fair value gain on the contingent consideration shares of HK$193,315,000 in previous year.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

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

Resources and Reserves of the iron ("TFe") and titanium dioxide ("TiO₂") mines under the JORC Code

(a) *Resource summary (includes reserves)*

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

(b) *Reserve summary*

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

There has been no material change in the estimated coal reserves and resources of the Group's iron and titanium dioxide mines, and the estimated iron and titanium dioxide as of 31 December 2016 are set out in the table above.

As a result of volatile metal commodity market, we recorded a significant impairment loss on exploration and evaluation assets of HK$699,200,000 in previous year and narrowed to HK$56,400,000 this year.

Due to continual keen competition, the resulting contribution from our previous business combination was less promising but improving, impairment on goodwill recessed from HK$272,800,000 in previous year to HK$150,887,000 this year while gain from other financial assets, which represented profit guarantee decreased from HK$237,911,000 in previous year to HK$117,309,000 this year.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

We received continual enquiry from investors and we issued convertible notes to promissory note holders during the year. Resulting from fair value regime of the accounting standard, we recorded a loss of HK$79,845,000 for such financing activities. Consequently, our finance costs reduced from HK$137,257,000 in previous year to HK$91,646,000 this year.

Income tax expense decreased from HK$51,274,000 in previous year to HK$41,564,000 this year. This was in line with our decrease in operating profit.

Basic loss per share improved from HK$0.306 in previous year to HK$0.073 this year.

PROSPECT

The Group would strive for a turn around in the household business and closely study the development of the mining industry.

At the same time, the Group would look for proper investments that would diversify the Group's risk and rewards. The Group is closely monitoring the acquisition of Aerospace Themed-Park Project and is confident that the acquisition will turn the Group to a new leaf.

Liquidity and Financial Resources

At 31 December 2016, the Group had total assets of approximately HK$1,651,923,000 which were financed by total liabilities of approximately HK$946,196,000 and equity of approximately HK$705,727,000. Accordingly, the Group's ratios of debts to total assets and debts to equity are 57% (2015: 61%) and 134% (2015: 159%), respectively.

The Group generally financed its operation by internal cash resources and bond issuance. At 31 December 2016, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about approximately HK$563,429,000.

At 31 December 2016, the Group issued the bonds with an aggregate principal amount of HK$511,215,000. The coupon rates of these bonds ranged from 3.5% to 10% per annum with maturity date from May 2017 to January 2024.

CAPITAL STRUCTURE

During the year ended 31 December 2016, the convertible bonds amounted to HK$201,409,000 were converted into 1,735,082,000 ordinary shares of the Company.

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

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At 31 December 2016, the Group had no contingent liabilities identified, and did not pledge any of its assets.

CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

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

At 31 December 2016, the Group employed about 275 employees including sales and merchandising, accounting and administrative staff in Hong Kong and the PRC. The total staff costs and directors' remuneration for the year were approximately HK$46,096,000. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

APPRECIATION

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

Fu Zhenjun
Executive Director

Hong Kong, 31 March 2017

PROFILE OF THE DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Zhixiong, aged 44, was appointed as an executive director on 18 November 2013. He had served as an executive director of Sustainable Forest Holdings Limited, a listed company in Hong Kong from 2 September 2011 to 5 February 2013. Mr. Li has extensive experience in the Household business including over 20 years of manufacturing and sales experience of household products in China.

Mr. Fu Zhenjun, aged 47, was appointed as an executive director on 23 March 2012. He is responsible for the business development of the Group. He has over 20 years of experience in sales and marketing. He has deep connection and relationship with people engaged in this aspect. Prior to joining the Group, he provided Enterprise Process Management services to some well-known PRC enterprises.

Mr. Kuang Yuanwei, aged 54, was appointed as executive director on 1 February 2013. He has over 20 years of experience in commercial banking industry and had held various senior positions in the banking industry prior joining the Group. Mr. Kuang has strong social networks and has established deep connections with people engaged in home furnishing industry.

NON-EXECUTIVE DIRECTOR

Mr. Li Dikang, aged 63, was appointed as a non-executive director on 4 May 2015. Mr. Li has over 30 years of experience in the economic management field for the Chinese Government. From 1975 to 2015, he has served various leading positions in the Chinese Government and has been responsible for economic management. Mr. Li has comprehensive experience in economic and corporate management, and has been repeatedly elected as Party representative and Deputy to the People's Congress.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu alias Loke Hoi Lam（陸海林）, aged 67, was appointed as an independent non-executive director on 9 August 2013. Dr. Loke serves as the Chairman of the Audit Committee and the member of the Nomination Committee of the Company. Dr. Loke has over 40 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from the University of South Australia. He is a Fellow of the Institute of Chartered Public Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; The Hong Kong Institute of Directors and The Hong Kong Institute of Chartered Secretaries. He is currently the company secretary of Minth Group Limited and serves as an independent non-executive director of the following companies whose shares are listed on the Stock Exchange: China Tiande Group Limited, V1 Group Limited, Matrix Holdings Limited, Sino Distillery Group Limited, China Fire Safety Enterprise Group Limited, Winfair Investment Company Limited, SCUD Group Limited, Zhong An Real Estate Limited, Tianjin Development Holdings Limited, Wing Tai Investment Holdings Limited and Tianhe Chemicals Group Limited.

PROFILE OF THE DIRECTORS

Mr. Lin Xuebin, aged 64, was appointed as an independent non-executive director on 9 August 2013. He serves as the member of the Remuneration Committee of the Company. He has over 20 years of experience in politics and cultural circles. He was a CPPCC (Chinese People's Political Consultative Conference) member of Wuchuan City, Secretary General of Wuchuan Shenzhen Chamber of Commerce(吳川深圳商會)and Deputy Director-General of Department of Cultural Affairs of Wuchuan City(吳川市文化局).

Mr. Yu Bingguang, aged 48, was appointed as an independent non-executive director on 11 March 2016. Mr. Yu serves as the chairman of the Remuneration Committee, chairman of Nomination Committee and the member of the Audit Committee. He holds a bachelor degree in finance from the Southwestern University of Finance and Economics. He has over 29 years of experience in banking and financial services. Mr. Yu is currently the General Manager of Guangdong Lida Guarantee Investment Limited.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2016, the Company has complied with the code provisions set out in the Corporate Governance Code ("the CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for certain deviations specified with considered reasons as disclosed in this annual report.

Deviation from CG Code

In respect of Code Provision A6.7 of the CG code, Mr. Li Zhixiong and Mr. Kuang Yuanwei, the executive directors, Mr. Li Dikang, a non-executive director, Mr. Yu Bingguang and Mr. Lin Xuebin, the independent non-executive directors were unable to attend the annual general meeting of the Company held on 1 June 2016 due to other crucial business commitment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD OF DIRECTORS

During the year, the Board comprises four executive directors, namely Dr. Kaneko Hiroshi (CEO) (Note 1), Mr. Li Zhixiong, Mr. Fu Zhenjun and Mr. Kuang Yuanwei and one non-executive director, Mr. Li Dikang and three independent non-executive directors, namely Mr. Yu Bingguang (Note 2), Dr. Loke Yu (Note 3) and Mr. Lin Xuebin (Note 4). The independent non-executive directors are all experienced individuals from a range of industries. Their mix of skills and experience is an important element in the proper functioning of the Board and in ensuring a high standard of objective debate and overall input to the decision-making process. The independent non-executive directors may seek for professional advice at the Company's expenses in carrying out their functions. Pursuant to the Listing Rules, every independent non-executive director has confirmed his independence with the Stock Exchange and provided an annual confirmation of his independence to the Company. The biographical details of all directors and their family relationship, if any, are provided on Pages 7 to 8 of this annual report. The Board had arranged insurance cover for the directors.

CORPORATE GOVERNANCE REPORT

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

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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

BOARD DIVERSITY POLICY

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

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

CORPORATE GOVERNANCE REPORT

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

Member	Number of board meetings attended/held	Number of annual general meeting attended/held	Number of special general meeting attended/held
Executive Directors			
Dr. Kaneko Hiroshi (CEO) *(Note 1)*	10/25	1/1	0/1
Mr. Li Zhixiong	25/25	0/1	0/1
Mr. Fu Zhenjun	25/25	1/1	1/1
Mr. Kuang Yuanwei	25/25	0/1	1/1
Non-executive Director			
Mr. Li Dikang	0/25	0/1	0/1
Independent Non-executive Directors			
Dr. Loke Yu *(Note 3)*	24/25	1/1	0/1
Mr. Yu Bingguang *(Note 2)*	21/25	0/1	1/1
Mr. Lin Xuebin *(Note 4)*	23/25	0/1	0/1

Notes:

1. Resigned as chief executive officer and executive director, and ceased to be the member of Remuneration Committee and Nomination Committee with effect from 1 June 2016.
2. Appointed as independent non-executive director, the Chairman of Remuneration Committee and Nomination Committee, a member of Audit Committee with effect from 11 March 2016
3. Appointed as a member of Remuneration Committee with effect from 1 June 2016.
4. Appointed as a member of Nomination Committee with effect from 1 June 2016.

CORPORATE GOVERNANCE REPORT

TERMS OF APPOINTMENTS AND RE-ELECTION OF DIRECTORS

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

AUDIT COMMITTEE

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

The composition of the Audit Committee during the year ended 31 December 2016 and up to the date of this report and the meetings held during the year are set out below:

Members	**Number of Audit Committee meetings attended/held**
Dr. Loke Yu *(Chairman of the Audit Committee) (Note 3)*	2/2
Mr. Lin Xuebin *(Note 4)*	2/2
Mr. Yu Bingguang *(Note 2)*	1/2

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

Relationship with the Company's auditor

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

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

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

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

Review of the Company's financial information

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

(i) any changes in accounting policies and practices;

(ii) major judgemental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(f) regarding (e) above:

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

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

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

(o) to report to the Board on the matters in the relevant code provision stated in Appendix 14 to the Listing Rules; and

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

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

REMUNERATION COMMITTEE

The Remuneration Committee was established to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee has adopted terms of reference which are in line with the CG Code. During the year, one Remuneration Committee meeting had been convened to discuss the remuneration policy of the Group. The Composition of the Remuneration Committee during the year and up to the date of this report, and their attendance are set out below:

Members	**Number of Remuneration Committee meeting attended/held**
Executive Director	
Dr. Kaneko Hiroshi *(Note 1)*	0/1
Independent non-executive directors	
Dr. Loke Yu *(Note 3)*	1/1
Mr. Lin Xuebin *(Note 4)*	1/1
Mr. Yu Bingguang *(Chairman of the Remuneration Committee) (Note 2)*	1/1

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

(f) review and approve compensation payable to the executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

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

NOMINATION COMMITTEE

The Nomination Committee is responsible for selecting Board members and ensuring transparency of the selection process. The Nomination Committee identifies individuals suitably qualified to become or continue to be the Board members by taking into considerations criteria like expertise, experience and commitment and makes recommendations to the Board on the selection of individuals nominated for directorships. The Nomination Committee has adopted terms of reference which are in line with the CG Code. Two meetings were held during the year. The composition of the Nomination Committee during the year and up to the date of this report and their attendance are set out below:–

Members	**Number of Nomination Committee meetings attended/held**
Executive Director	
Dr. Kaneko Hiroshi *(Note 1)*	1/3
Independent non-executive directors	
Dr. Loke Yu *(Note 3)*	2/3
Mr. Lin Xuebin *(Note 4)*	1/3
Mr. Yu Bingguang *(Chairman of the Nomination Committee) (Note 2)*	1/3

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

FINANCIAL REPORTING

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

The responsibilities of independent external auditors to the shareholders are set out on pages 33 to 38 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is overall responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group established and maintained appropriate and effective risk management and internal control systems.

The Audit Committee reviews the risk management and internal controls that are significant to the Group on an on-going basis. The Audit Committee would consider the adequacy of resource, qualifications and experience and training of staff and external advisor of the Group's accounting, internal audit and financial reporting function.

The management of the Group is responsible for designing, maintaining, implementing and monitoring of the risk management and internal control system to ensure adequate control in place to safeguard the Group's assets and stakeholders' interest.

The Group has established risk management procedures to address and handle the all significant risks associate with the business of the Group. The Board would perform annual review on any significant change of the business environment and establish procedures to response the risks result from significant change of business environment. The risk management and internal control systems are designed to mitigate the potential losses of the business.

The management would identify the risks associate with the business of the Group by considering both internal and external factors and events which include political, economic, technology, environmental, social and staff. Each of risks has been assessed and prioritised based on their relevant impact and occurrence opportunity. The relevant risk management strategy would be applied to each type of risks according to the assessment results, type of risk management strategy has been listed as follow:

– Risk retention and reduction: accept the impact of risk or undertake actions by the Group to reduce the impact of the risks;

– Risk avoidance: change business process or objective so as to avoid the risk;

– Risk sharing and diversification: diversify the effect of the risk or allocate to different location or product or market.

– Risk transfer: transfer ownership and liability to a third party

The internal control systems are designed and implemented to reduce the risks associated with the business accepted by the Group and minimise the adverse impact results from the risks. The risk management and internal control system are design to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year under review, the Group has engaged an external advisory firm to undertake the internal audit function to ensure the effectiveness and efficiency of the risk management and internal control system of the Group. There is no significant deficiency and weakness on the internal control system has been identified by the external advisory firm for the year ended 31 December 2016.

The Board considered that, for the year ended 31 December 2016, the risk management and internal control system and procedures of the Group, covering all material controls including financial, operational and compliance controls and risk management functions were reasonably effective and adequate.

EXTERNAL AUDITOR

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2016, the services provided by the Company's independent external auditors to the Group were as follows:

	2016 *HK$'000*	2015 *HK$'000*
Audit services	**1,100**	1,100
Other assurance services	**225**	150
Non-assurance services	**150**	200

COMPANY SECRETARY

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

Mr. Yuen Kwok Kuen has been the company secretary of the Company since 4 May 2015. During the year, Mr. Yuen undertook not less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION AND SCOPE OF ESG REPORT

This report is prepared with accordance to Appendix 27 Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out by The Stock Exchange of Hong Kong Limited on Main Board ("Main Board Listing Rule"). The Board has reviewed and approved of the report and are pleased to present the performance and progress on environmental, social and governance for the year ended 31 December 2016.

This is the first Environmental, Social and Governance report (the "ESG Report") of the Group. The Group is committed to incorporate sustainability and standards into the business in order to better meet the changing needs of an advancing society. Being the first ESG report of the Group it will mainly present policies, initiatives and performance.

The ESG report of the Group has been presented into two subject areas, Environmental and Social and each subject area will have various aspects to disclose the relevant policies and the status of compliance with relevant laws and regulations as addressed by the ESG Guide. The table below shows the summary of the ESG issues that found material for the Group and to the relation of ESG Guide:

ESG Guide	Relevant ESG issues to the Group
A. Environmental	
A.1 Emissions	Carbon dioxide and waste management
A.2 Use of resources	Energy and water consumption
A.3 Environmental and natural resources	Measures in reducing environmental impact
B. Social	
B.1 Employment	Labour practices
B.2 Health and safety	Workplace health and safety
B.3 Development and training	Employee development and training
B.4 Labour standards	Child labour and forced labor
B.5 Supply chain management	Supplier management
B.6 Product responsibility	Product safety and quality
B.7 Anti-corruption	Anti-corruption and money laundering
B.8 Community investment	Community involvement

THE GROUP

The Company and its subsidiaries (collectively, the "Group") were principally engaged in sales of household furniture such as trading of household furniture and wooden products, mining in the Peoples' Republic of China ("the PRC") with iron and titanium exploration, providing information and technologies services along with sales of related products and trading of securities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. Environmental

A.1 Emissions

Carbon dioxide and waste management

As a rapidly developing enterprise in Hong Kong and PRC, the Group's furniture manufacturing business closely related to environmental protection and the usage of natural resources. The Group has implemented a set of management policies and measures of natural resources conservation and help ensure the sustainability of the Group.

During the year, the Group has been focusing on minimising emission of pollutants and waste due to its business activities in order to efficiently consume resources. The Group has engaged in production and certain emissions would be made during the production process. By qualifying ISO 14001, the Group has a successful and systematic framework to manage the immediate and long term environmental impacts of an organisation's products, services and processes. The Group has complied with applicable environmental laws and regulations such as Environmental Protection of the People's Republic of China Prevention 《中華人民共和國環境保護法》, Control of Atmospheric Pollution 《中華人民共和國大氣污染防治法》 and Urban Drainage and Sewage Treatment Ordinance 《城鎮排水與污水處理條例》.

The household decoration, exploitation of iron and titanium, mining and development are the most significant to the environmental concern of the Group and its stakeholders. The mining and production business are located in Zhongshan, trading of the wooden household products, providing services of overall general household solution. There are machineries in the production plants which are powered by the electricity and the manufacturing activities would produce emission CO2.

The Group has established policies to restrict and limit the emissions from the production activities. However, the Group believed that the emission of financial services and the office would not generate significant emission to the air and water.

A.2 Use of resources

Energy and water consumption

The Group believed that efficiency use of resources are the key the Group's attribution to the environmental friendly strategy. The Group has implemented the policies as follow to control the use of resources:

1 To reduce errors to improve the production effectiveness with less re-production.

2 To reduce total paper consumption by keeping an electronic copy of documents rather than hard copy.

3 To use the best raw materials for productions and reduce waste of materials.

4 To maintain better processing efficiency and cleaner environment.

A.3 Environmental and natural resources

Measures in reducing environmental impact

The Group has implemented a set of energy saving initiative, as to minimize the impacts of environmental and natural resources. The management of the Group would evaluate and implement a waste-water processing system in order to keep up the efficiency of machines and retain the energy use of wooden households' production.

B. Social

B.1 Employment

Labour practices

The Group believed that employees are the most vital assets of the Group. For the year ended 31 December 2016, the Group has complied with all relevant labour and employment laws and regulations. The Group adopts practices and policies of Labor Law of the People's Republic of China 《中華人民共和國勞動法》, Labor Contract Law of People's Republic of China 《中華人民共和國勞動合同法》. Staff's employment contract specified the terms including compensation and dismissal, working hours, rest periods and other benefits and welfare for the staffs. The Group also promoted equal opportunity, fair recruitment and promotion and anti-discrimination as one of the important human resource policies.

The Group has carried out a set of staffs' work attendance and holiday management policy in order to provide guidelines for all workers, increase working efficiency and maintain good sequence of work. Also, the Human Resources Department of the Group has been established a detailed handbook consists of recruitment, wages and benefits of employees, contract, and resignation.

B.2 Health and Safety

Workplace health and safety

As most of the employees of the Group are labour-intensive, the Group strive to create a safe, healthy and comforting workplace for the workers. The Group always suggest workers to ask and learn before operating any kind of factory plants to use the equipment safely and correctly.

During the year ended 31 December 2016, with respect to occupational safety management, the Group has complied with Labour Law of the People's Republic of China 《中華人民共和國勞動法》 of occupational safety and health and other applicable regulations. The Group's production bases are subject to the regulations on safety supervision of special equipment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B.3 Development and Training

Employee development and training

The Group aims to regularly upgrade workers' professional skills and knowledge, standards and integrated abilities. All workers can therefore correspond with the growth of the Group and broaden the space of development for workers.

The Group have certain areas of training programmes for all levels of employee:

1 New-comer training

2 Post-transferring programme

3 Professional training

4 Organising development programme

5 Middle/high-level-management programme

6 General secretary/assistant training programme

The Group encourage every worker to attend external professional training and provide them leave allowance for training.

B.4 Labour Standards

Child labour and forced labor

The recruitment process of the Group is strictly based on the recruitment policy and guideline designed by the Human Resources Department so the HR department must gather all employees' details for internal record and legal compliance. Any individuals under legal working age and individuals without any identification documents are disqualified from employment.

During the year ended 31 December 2016, the Group has been following the Employment Ordinance Chapter 57 of the Laws of Hong Kong and the Provisions on the prohibition of using child labour and the law of the PRC on the protection of minors by Labour Contract Law of the People's Republic of China 《中華人民共和國勞動合同法》.

B.5 Supply Chain Management

Supplier management

The Group has been keen on keeping a good cooperation partnership with the major property developer and suppliers in PRC. Apart from the downstream one-stop solution for household development, the Group also strives to integrate upstream and midstream businesses, to build a completed supply chain.

The Group wishes to maintain stable supply of timber resources, as well as to ensure the quality, cost and delivery are all under control. The Group have established good relationship with both domestic and overseas timber wholesale markets. Looking forward, the Group has started research and development (R&D) of wooden furniture since 2013.

In the frontline operations, the Group focused on environmentally friendly materials such as Forest Stewardship Council (FSC) paper and recycled materials. In PRC, the Group has established proper procedures other than price evaluation.

B.6 Product Responsibility

Product safety and quality

The Group has dedicated to put the products quality as its first priority since the performance of the products would affect the reputation and success of the business and the potential damage for consumers' claim. By introducing ISO 9001, the Group has been focusing on meeting customer expectation and delivering customer satisfaction and promote long-term relationship between customers.

The products of the Group are subjected to the Product Quality Law of the People's Republic of China《中華人民共和國產品質量法》and Protection of the Rights and Interests of Customers of the PRC which make the Group has the responsibility to refund or compensate for damaged products due to defects. During the year ended 31 December 2016, the Group has not received any compliant regarding the quality of the products and made any compensations to its customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B.7 Anti-Corruption

Anti-corruption and money laundering

One of the most vital principle of the Group would be integrity. This core value is a standard of its operation. The Group built an anti-corruption mechanism for its sustainable develop of the Group. All workers are required to understand and follow the Employees' Code of Conduct. The Group would also provide regular updates and trainings for workers. The Group complied with Criminal law of the People's Republic of China 《中華人民共和國刑法》 and the Anti-Unfair Competition Law of the People's Republic of China《中華人民共和國反不正當競爭法》for the year ended 31 December 2016.

B.8 Community investment

Community involvement

Giving back to society is the most important thing to do. Corporate social responsibility (CSR) is the backbone of the core corporate values that the Group strives for, from giving away a portion of a companies proceed to charity; and implementing green business operations. The Group encourage employees to take part in programmes supporting environmental protection and volunteer work.

The directors submit their report together with the audited financial statements of the Company for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 39 to 131.

The directors do not recommend the payment of a dividend in respect of the year.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 43 and note 32(b) to the consolidated financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company had no distributable reserves. However, the Company's share premium account, in the amount of HK$2,547,758,000 may be distributed in the form of fully paid bonus shares and the Company's contributed surplus is available for distribution under the conditions as detailed in note 32(b) to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

BANK BORROWINGS

Particulars of bank borrowings of the Group at 31 December 2016 are set out in note 25 to the consolidated financial statements.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 132. This summary does not form part of the audited financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIRECTORS

The directors during the year were:

Executive directors

Dr. Kaneko Hiroshi *(resigned on 1 June 2016)*
Mr. Li Zhixiong
Mr. Fu Zhenjun
Mr. Kuang Yuanwei

Non-Executive director

Mr. Li Dikang

Independent non-executive directors

Dr. Loke Yu
Mr. Lin Xuebin
Mr. Yu Bingguang *(appointed on 11 March 2016)*

In accordance with Clause 99 of the Company's bye-laws, Mr. Li Zhixiong, Mr. Fu Zheujun and Mr. Li Dikang will retire by rotation at the forthcoming annual general meeting and pursuant to clause 102(A) of the Company's bye-laws. Mr. Yu Bingguang will retire at the forthcoming annual general meeting. All the retiring directors are eligible for re-elections.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Connected Transactions" set out in page 30 and "Connected and related party transactions and balances" set out in Note 37 to the consolidated financial statements, no other contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors are set out on pages 7 to 8.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2016, the directors or their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Shares – long position

The Company:

	Number of shares held				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Li Zhixiong	869,051,666	43,030,000	–	–	912,081,666

Interest in underlying share

The directors of the Company have been granted options under the Company's share option scheme, details of which are set out in note 33 to the consolidated financial statements.

Save as disclosed above and note 33 to the consolidated financial statements, at no time during the year had the directors (including their spouse and children under 18 years of age) have any interest in, or been granted, or exercised, any rights to subscribe for shares or debentures of the Company and its associated corporations.

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

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

Any parties (other than the directors) have long positions in the shares and underlying shares as recorded in the register as required to be kept by the Company pursuant to Section 336 of the SFO. As at 31 December 2016, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Shares – long position

The Company:

Name		Number of underlying shares interested	Percentage of issued share capital at 31 December 2016
Wu Guanwen	Beneficial owner	43,030,000	0.74%
	Held by spouse *(Note 1)*	869,051,666	14.61%
Wu Junyi	Beneficial owner	229,090,909	3.93%
Lin Kai	Beneficial owner	356,000,000	6.11%
Li Yim Cheung	Beneficial owner *(Note 2)*	1,500,000,000	25.73%

Notes:

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

2. The interest represents the maximum number of new shares which may be issued upon the full conversion of convertible bonds issued by the Company at the conversion price HK$0.9 and HK$0.10 per share.

CONNECTED TRANSACTIONS

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

On 31 December 2014, the Group, as tenant, entered into Tenancy Agreement with Zhongshan Jindao Wood Products Company Limited ("Jindao") as landlord, for the leasing of premises for terms of three years commencing from 1 January 2015 and expiring on 31 December 2017 respectively. The maximum annual rental payable to Jindao for each of the three years ending 31 December 2017 under the Tenancy Agreement amount to approximately RMB7,099,800 (equivalent to approximately HK$8,945,800). The highest applicable percentage ratios calculated with reference to the maximum aggregate annual rentals payable to Jindao under the Tenancy Agreement for each of the three years ending 31 December 2017 exceeds 0.1% but is less than 5%. As one of the director of the Company was the beneficially owner of Jindao and therefore Jindao is a connected person of the Company under Listing Rules and the Tenancy Agreement constituted continuing connected transactions. Details of the transactions are set out in the announcement of the Company dated 31 December 2014.

The rental expenses fall within the Rules of de minimis pursuant to Rules 14A.65(4) and/or 14A.31(2) of the Listing Rules. Accordingly, they are not subject to disclosure or shareholder's approval requirement.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

– the largest supplier	22%
– five largest suppliers combined	66%

Sales

– the largest customer	6%
– five largest customers combined	19%

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

DIRECTORS' INTEREST IN COMPETING INTEREST

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

CODE ON CORPORATE GOVERNANCE PRACTICES

Please refer to the Corporate Governance Report on pages 9 to 20 of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

DIRECTORS' REPORT

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

There was no significant discloseable event after the reporting period.

AUDIT COMMITTEE

The Audit Committee as of the date of this report comprised three independent non-executive directors, namely Dr. Loke Yu (Chairman of the Audit Committee), Mr. Yu Bingguang and Mr. Lin Xuebin. Two meetings were held during the current financial year. The Audit Committee had reviewed the audited results of the Group for the year ended 31 December 2016.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 were audited by Elite Partners CPA Limited.

A resolution for the appointment of Elite Partners CPA Limited as the auditors of the Company for the year ending 31 December 2017 will be proposed at the upcoming AGM of the Company.

On behalf of the Board

Fu Zhenjun
Executive Director

Hong Kong, 31 March 2017

INDEPENDENT AUDITOR'S REPORT

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

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

OPINION

We have audited the consolidated financial statements of China Household Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 131, 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 profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 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 year ended 31 December 2016. 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.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How the matter was addressed in our audit
Impairment assessments of goodwill and intangible assets	
As at 31 December 2016, the Group had goodwill of HK$228,962,000 and intangible assets of HK$48,000,000 relating to the Group's cash-generating unit for the sale of wooden furnishing products (the "CGUs"). During the year ended 31 December 2016, the Group had recognised an impairment loss of approximately HK$150,887,000 and HK$33,400,000 for the goodwill and intangible assets, respectively. The Group had engaged an independent valuer to assist the management of the Company in determining the recoverable amount of each CGU based on the value-in-use calculations. We had identified the impairment assessments of goodwill and intangible assets relating to the CGUs as a key audit matter because the amounts involved were significant and the significant management judgement was required to develop key assumptions, including operating margins, terminal growth rates and discount rates, underlying the value-in-use calculations.	Our major audit procedures in relation to the management's impairment assessment of goodwill and intangible assets included the following: • We assessed the management's identification of CGUs based on the Group's accounting policies and our understanding of the Group's operations; • We assessed the reasonableness of the methodology on the value-in-use calculations and the assumptions used for the preparation of the cash flow projections adopted by the management of the Company (including operating margins, terminal growth rates and discount rates) based on our knowledge of the business and industry; • We evaluated the competence, capabilities and objectivity of independent valuer and the method used for estimating the recoverable amount of the CGUs; • We compared the projections with the prior year actual cash flows to consider if the projections included assumptions that were overly optimistic; • We discussed with the valuer the appropriateness of the methodology and assumptions used in estimating the recoverable amount of the CGU, and performed certain procedures to assess data and assumptions used by the management and the valuer in estimating the recoverable amount; and • We reconciled the input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

Key audit matter	How the matter was addressed in our audit
The assessment of the carrying value of exploration and evaluation assets	
As at 31 December 2016, the carrying value of exploration and evaluation assets amounted to HK$50,000,000 as disclosed in note 15 to the consolidated financial statements. Impairment losses of HK$56,400,000 had been recognised on exploration and evaluation assets for the year ended 31 December 2016. Since the estimates of the recoverable amount of the related future iron and titanium dioxide prices, foreign exchange rates and achieving production in the near future are complex, subjective and highly judgmental, in particular, assumptions and judgements made by management in arriving at the cash flow forecasts, the impairment assessment of exploration and evaluation assets are considered as a key audit matter.	Our major audit procedures to address the matter included: • We evaluated management's impairment models against approved Life of Mine ("LOM") plans and our understanding of the operations, and critically challenged the key estimates and assumptions used by management. • We tested comparison of the iron and titanium dioxide pricing trends and market forecasts, comparison of foreign exchange rates to market spot and forward rates, recalculation of discount rates, and critical review of the forecast cost and production profiles against approved mine plans, resources and reserves reports. • We discussed with management and independent valuer engaged by the Company the methodology, bases and assumptions being used in arriving at the forecasts (e.g. discount rate) to see whether the methodology and assumptions used were reasonable. • We performed sensitivity analysis on key assumptions being used in the forecasts (e.g. using a range of higher discount rates higher depreciation iron and titanium dioxide prices).

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 requirement of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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. The report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism 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.

We communicate with those charged with governance 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 those charged with governance 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.

INDEPENDENT AUDITOR'S REPORT

From the matters communicated with those charged with governance, 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 director on the audit resulting in this independent auditor's report is Chan Wai Nam William with Practising Certificate number P05957.

Elite Partners CPA Limited
Certified Public Accountants

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

31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	5	**872,351**	1,152,101
Cost of sales		**(699,534)**	(822,307)
Gross profit		**172,817**	329,794
Other income	5	**42,758**	7,233
Selling and distribution expenses		**(40,096)**	(68,741)
Administrative expenses		**(174,552)**	(272,545)
Other gain and losses	5	**(209,326)**	(895,162)
Finance costs	6	**(91,646)**	(137,257)
Loss before tax	7	**(300,045)**	(1,036,678)
Income tax expense	9	**(41,564)**	(51,274)
LOSS FOR THE YEAR		**(341,609)**	(1,087,952)
Attributable to:			
owners of the Company		**(341,528)**	(1,086,984)
non-controlling interests		**(81)**	(968)
		(341,609)	(1,087,952)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**(HK$0.073)**	(HK$0.306)
Diluted		**(HK$0.073)**	(HK$0.306)

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
LOSS FOR THE YEAR	**(341,609)**	(1,087,952)
OTHER COMPREHENSIVE EXPENSE		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(50,263)**	(42,068)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX	**(50,263)**	(42,068)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	**(391,872)**	(1,130,020)
Attributable to:		
owners of the Company	**(391,792)**	(1,129,049)
non-controlling interests	**(80)**	(971)
	(391,872)	(1,130,020)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**26,499**	26,620
Lease premiums for land	13	**101,931**	105,890
Exploration and evaluation assets	15	**50,000**	106,400
Intangible assets	16	**48,000**	109,800
Other financial assets	17	**179**	361,495
Deferred tax assets	18	**1,221**	34,402
Goodwill	19	**228,962**	379,849
Total non-current assets		**456,792**	1,124,456
CURRENT ASSETS			
Inventories	20	**134,958**	145,699
Lease premiums for land	13	**3,959**	3,959
Trade and bills receivables	21	**164,915**	163,304
Prepayments, deposits and other receivables	22	**326,764**	537,024
Equity investments at fair value through profit or loss	23	**1,106**	4,383
Cash and cash equivalents	24	**563,429**	408,872
Total current assets		**1,195,131**	1,263,241
CURRENT LIABILITIES			
Bank loans, secured	25	**52,930**	56,720
Trade payables	26	**103,552**	36,117
Other payables and accruals	27	**210,783**	205,609
Tax payables		**13,760**	6,368
Obligation under finance leases	28	**170**	147
Strict bonds	25	**131,163**	66,500
Convertible bonds	29	**–**	307,322
Promissory notes	30	**1,666**	39,489
Total current liabilities		**514,024**	718,272
NET CURRENT ASSETS		**681,107**	544,969
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,137,899**	1,669,425

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Obligation under finance leases	28	**179**	349
Other payables	27	**39,941**	141,583
Deferred tax liabilities	18	**12,000**	27,300
Strict bonds	25	**380,052**	357,677
Convertible bonds	29	**–**	75,063
Promissory notes	30	**–**	147,471
Total non-current liabilities		**432,172**	749,443
NET ASSETS		**705,727**	919,982
EQUITY			
Equity attributable to owners of the Company			
Share capital	31	**5,829**	4,079
Equity component of convertible bonds	29	**–**	124,236
Other reserves		**677,673**	769,362
		683,502	897,677
Shares to be issued		**21,418**	21,418
Non-controlling interests		**807**	887
TOTAL EQUITY		**705,727**	919,982

Kuang Yuanwei
Director

Li Zhixiong
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium# HK$'000	Contributed surplus# HK$'000	Employee share option reserves# HK$'000	Capital reserves# HK$'000	Equity component of convertible bonds HK$'000	Exchange reserves# HK$'000	Statutory reserve HK$'000	Accumulated losses# HK$'000	Total HK$'000	Shares to be issued HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015	3,166	1,908,071	388,084	30,654	(21)	165,150	919	34,236	(955,617)	1,574,642	21,418	(1,746)	1,594,314
Loss for the year	–	–	–	–	–	–	–	–	(1,086,984)	(1,086,984)	–	(968)	(1,087,952)
Other comprehensive expense	–	–	–	–	–	–	(42,065)	–	–	(42,065)	–	(3)	(42,068)
Total comprehensive expense for the year	–	–	–	–	–	–	(42,065)	–	(1,086,984)	(1,129,049)	–	(971)	(1,130,020)
Consideration shares issued for the acquisition of subsidiaries	229	146,389	–	–	–	–	–	–	–	146,618	–	–	146,618
Issue of shares upon the conversion of convertible bonds	673	227,584	–	–	–	(56,733)	–	–	–	171,524	–	–	171,524
Hair cut during the year due to profit guarantee shortfall	–	–	–	–	–	(48,925)	–	–	48,925	–	–	–	–
Equity-settled share options arrangement	–	–	–	66,077	–	–	–	–	–	66,077	–	–	66,077
Issue of shares under share option scheme	1	148	–	(28)	–	–	–	–	–	121	–	–	121
Share option lapsed	–	–	–	(538)	–	–	–	–	538	–	–	–	–
Issue of shares for remuneration	10	2,990	–	–	–	–	–	–	–	3,000	–	–	3,000
Issue of convertible bonds	–	–	–	–	–	64,744	–	–	–	64,744	–	–	64,744
Disposal of subsidiaries	–	–	–	–	21	–	–	–	(21)	–	–	3,604	3,604
Transfers	–	–	–	–	–	–	–	26,884	(26,884)	–	–	–	–
At 31 December 2015	4,079	2,285,182	388,084	96,165	–	124,236	(41,146)	61,120	(2,020,043)	897,677	21,418	887	919,982
(Loss)/profit for the year	–	–	–	–	–	–	–	–	(341,528)	(341,528)	–	(81)	(341,609)
Other comprehensive expense	–	–	–	–	–	–	(50,263)	–	–	(50,263)	–	1	(50,262)
Total comprehensive expense for the year	–	–	–	–	–	–	(50,263)	–	(341,528)	(391,791)	–	(80)	(391,871)
Hair cut during the year due to profit guarantee shortfall	–	–	–	–	–	(104,287)	–	–	–	(104,287)	–	–	(104,287)
Issue of shares upon the conversion of convertible bonds	1,735	272,596	–	–	–	(96,481)	–	–	–	177,850	–	–	177,850
Share option lapsed	–	–	–	(18,000)	–	–	–	–	18,000	–	–	–	–
Equity-settled share options arrangement	–	–	–	25,054	–	–	–	–	–	25,054	–	–	25,054
Issue of shares under share option scheme	15	1,980	–	(1,200)	–	–	–	–	–	795	–	–	795
Issue of convertible bonds	–	–	–	–	–	78,205	–	–	–	78,205	–	–	78,205
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer to other payable on maturity	–	–	–	–	–	(1,673)	–	–	1,673	–	–	–	–
At 31 December 2016	5,829	2,559,758	388,084	102,019	–	–	(91,409)	61,120	(2,341,898)	683,503	21,418	807	705,728

These reserve accounts comprise the consolidated reserves of approximately HK$677,674,000 (2015: HK$769,362,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(300,045)**	(1,036,678)
Adjustments for:		
Depreciation of property, plant and equipment	**3,244**	3,334
Amortisation of intangible assets	**28,400**	86,152
Amortisation of lease premiums for land	**3,959**	3,959
Bank interest income	**(358)**	(200)
Net fair value gain on contingent consideration shares	**–**	(193,315)
Interest on bank loans and others	**8,007**	4,295
Interest on convertible bonds	**16,951**	67,570
Interest on promissory notes	**14,806**	35,081
Interest on strict bonds	**40,579**	26,512
Net fair value loss on equity investments at fair value through profit or loss	**136**	3,766
Loss/(gain) on extinguishment of financial liabilities	**79,845**	(8,005)
Loss on trading of equity investments at fair value through profit or loss, net	**–**	1,136
Fair value change in other financial assets	**(117,309)**	(237,911)
Imputed interest on other payable	**11,303**	3,799
Impairment loss on goodwill	**150,887**	272,800
Impairment loss on trade and bills receivables, net	**32,444**	18,984
Impairment loss on exploration and evaluation assets	**56,400**	699,200
Impairment loss on intangible assets	**33,400**	352,012
Equity-settled share based payment	**25,054**	69,077
Gain on disposals of subsidiaries	**–**	(2,631)
Loss on disposal of property, plant and equipment	**–**	23
Operating cash inflows before working capital changes	**87,703**	168,960
Decrease/(increase) in inventories	**10,741**	(30,786)
(Increase)/decrease in trade and bills receivables	**(44,672)**	128,839
Decrease/(increase) in prepayments, deposits and other receivables	**191,323**	(332,269)
Increase/(decrease) in trade payables	**62,237**	(42,932)
(Decrease)/increase in other payables and accruals	**(182,878)**	335,766
Payment of acquisition of equity investments at fair value through profit or loss	**(1,972)**	(27,951)
Proceeds from disposal of equity investments at fair value through profit or loss	**5,113**	28,773
Cash generated from operations	**127,595**	228,400
Profits tax paid	**(16,290)**	(102,933)
Net cash generated from operating activities	**111,305**	125,467

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**358**	200
Decrease in pledged time deposits with original maturity more than three months	**–**	1,073
Purchases of property, plant and equipment	**(3,294)**	(191)
Net cash inflow from disposal of subsidiaries	**–**	758
Net cash (used in)/from investing activities	**(2,936)**	1,840
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	**(36,842)**	(43,171)
Repayment of obligation under finance leases	**(147)**	(298)
Repayment of bank loans	**(56,720)**	(44,135)
Repayment of strict bonds	**–**	(2,700)
Proceeds from issues of strict bonds	**87,037**	91,177
Proceeds from new bank and other loans	**52,930**	59,649
Proceeds from issues of shares	**795**	121
Proceeds from issues of convertible bonds	**16,318**	–
Net cash generated from financing activities	**63,371**	60,643
NET INCREASE IN CASH AND CASH EQUIVALENTS	**171,740**	187,950
Cash and cash equivalents at beginning of year	**408,872**	240,451
Effect of foreign exchange rate change, net	**(17,183)**	(19,529)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**563,429**	408,872
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**563,429**	408,872

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE INFORMATION

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

The Company and its subsidiaries (together the "Group") were principally engaged in trading of wooden products, iron and titanium exploration, development and mining in the People's Republic of China ("PRC"), and securities investment during the year.

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

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current year, the Group has applied a number of amendments to HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 January 2016. These amendments have been applied by the Group for the first time in the current year unless otherwise specified. The impact of these amendments are described below.

a) Amendments HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception

The amendments mainly clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The Company is not an investment entity. Also, given that the Company is a listed entity, the consolidation exception set out in the amendments will not be applicable to the Company and hence the application of these amendments has had no impact on the Group's consolidated financial statements.

b) Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards should be applied. The amendments also require that a joint operator to disclose the relevant information required by HKFRS 3 and other standards for business combinations. The amendments require prospective application; prospectively in annual periods beginning on or after 1 January 2016. The Group did not have any such transactions in the current year and hence the application of these amendments has had no impact on the Group's consolidated financial statements.

c) Amendments to HKAS 1 Disclosure Initiative

The amendments clarify that an entity need not provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material (even if the HKFRS contains a list of specific requirements or describes them as minimum requirements). The amendments also give guidance on the bases of aggregating and disaggregating information for disclosure purposes. The amendments emphasize that an entity should consider whether to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. Furthermore, the amendments require that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

The application of these amendments has had no material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(CONTINUED)*

d) Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue-based amortisation is not an appropriate basis for amortisation of an intangible asset. The amendments states that such a presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

With regard to the Group's property, plant and equipment and intangible assets, the Group did not use revenue-based depreciation method and hence the amendments have not have any impact on the Group's financial position and financial performance. Rather, the Group has been using the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively.

e) Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments define a bearer plant that is a living plant that:

a) is used in the production or supply of agricultural produce;

b) is expected to bear produce for more than one period; and

c) has a remote likelihood of being sold as agricultural produce except for incidental scrap sales.

The amendments require that biological assets that meet the definition of a bearer plant should be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

f) Annual Improvements to HKFRSs 2012-2014 Cycle

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

Firstly, the amendments to HKFRS 5 introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply.

Secondly, the amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(CONTINUED)*

f) Annual Improvements to HKFRSs 2012-2014 Cycle *(continued)*

Thirdly, the amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead. The Group did not have any defined benefit scheme.

The application of these amendments has had no effect on the Group's consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 Financial Instruments

HKFRS 9 has introduced new requirements for a) classification and measurement of financial assets, b) impairment of financial assets and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 to be subsequently measured at amortised cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each of the subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

HKFRS 9 Financial Instruments *(continued)*

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

With regard to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under HKAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk.

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

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regard to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

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

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations *(continued)*

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

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

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

Acquisition of assets

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

Goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Goodwill *(continued)*

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

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

Fair value measurement

The Group measures the financial assets at fair value through profit or loss at fair value at the end of each repeating period.

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

   (ii) has significant influence over the Group; or

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

or

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties *(continued)*

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

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

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

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

– buildings situated on leasehold land are depreciated over the lower of the unexpired term of lease and their estimated useful lives, being no more than 20 years.	
– leasehold improvement	over the lease term
– plant and machinery	20%
– furniture, fixtures, and office equipment	20%
– motor vehicles	30%

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

Exploration and evaluation assets

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

Leases

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets (other than goodwill)

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

Investments and other financial assets

Classification

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

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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

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

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

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

Loans and receivables

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

Derecognition of financial assets

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities

Initial recognition and measurement

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

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

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

Effective interest method

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

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Convertible bonds

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities *(continued)*

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Provisions for product rectification granted by the Group on certain product defects are recognised based on the terms of certain of the Company's decoration agreements with customers and service agreements with furniture products combo, discounted to their present values as appropriate.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

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

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

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

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

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

Share-based payment

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 33 to the financial statements.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Share-based payment *(continued)*

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

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

Employee benefits

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

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

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the 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 functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

Estimation uncertainty

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

Impairment of trade receivables

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

3. SIGNIFICANT ACCOUNTING ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

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

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

Useful lives of property, plant and equipment

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

Impairment of exploration and evaluation assets

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

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and intangible assets have been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Valuation of intangible assets and useful lives

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

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3. SIGNIFICANT ACCOUNTING ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

Valuation of other financial assets

Profit guarantee is valued at fair value at the acquisition date with the best estimates of the future outcome of the future events. Where the profit guarantee meets the definition of a financial asset, it is subsequently re-measured to fair value at the end of each reporting period. The determination of the fair value is based on the expected adjustment on consideration paid. The key assumptions take into consideration the probability of meeting each profit target.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three (2015: three) reportable operating segments as follows:

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

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

(c) other comprises of the trading of securities and information and technology services.

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations. The Group's operating business are organised and managed separately according to the nature of products, which each segment representing a strategic business segment that offers different products in the PRC market. However, the Group's executive directors considered that over 90% of the Group's revenue and operating results for both years ended 31 December 2016 and 2015 were mainly derived from its sales of household furnitures therefore the operating segment analysis about profit or loss is not presented.

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

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

4. SEGMENT INFORMATION *(CONTINUED)*

	Year ended 31 December 2016			
	Sales of household furniture *HK$'000*	**Mining** *HK$'000*	**Other** *HK$'000*	**Total** *HK$'000*
Segment assets	1,562,228	51,176	1,392	1,614,796
Reconciliation:				
Unallocated assets				37,127
Total assets				1,651,923
Segment liabilities	281,586	534	2,230	284,350
Reconciliation:				
Unallocated liabilities				661,846
Total liabilities				946,196
Other segment information				
Capital expenditure*	3,294	–	–	3,294
Reconciliation:				
Unallocated capital expenditure				–
				3,294

* Capital expenditure consists of additions to property, plant and equipment.

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4. SEGMENT INFORMATION *(CONTINUED)*

	Year ended 31 December 2015			
	Sales of household furniture *HK$'000*	Mining *HK$'000*	Other *HK$'000*	Total *HK$'000*
Segment assets	2,221,038	107,758	12,739	2,341,535
Reconciliation:				
Unallocated assets				46,162
Total assets				2,387,697
Segment liabilities	444,389	52	3,737	448,178
Reconciliation:				
Unallocated liabilities				1,019,537
Total liabilities				1,467,715
Other segment information				
Capital expenditure*	404,242	–	5	404,247
Reconciliation:				
Unallocated capital expenditure				–
				404,247

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION *(CONTINUED)*

Geographical information

	For the year ended 31 December 2016		
	Hong Kong *HK$'000*	**The PRC** *HK$'000*	**Total** *HK$'000*
Segment assets	**38,383**	**1,613,540**	**1,651,923**
Capital expenditure*	**–**	**3,294**	**3,294**

	For the year ended 31 December 2015		
	Hong Kong *HK$'000*	The PRC *HK$'000*	Total *HK$'000*
Segment assets	59,083	2,328,614	2,387,697
Capital expenditure*	–	404,247	404,247

Information about major customers

Revenue from major customers was derived from the sales of household furnitures segment and sourced from the PRC in 2016 and 2015 respectively.

There is no customer contributed over 10% of the total revenue of the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND OTHER GAIN AND LOSSES

Revenue, which represents the net invoiced value of i) sales of household furnitures; and ii) trading of securities. During the year, the Group did not generate any income from the mining business.

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

	2016 HK$'000	2015 HK$'000
Revenue		
Sales of goods	870,347	1,126,451
Proceeds from sale of listed equity investments	2,004	25,550
Others	–	100
	872,351	1,152,101
Other income		
Bank interest income	358	200
Compensation income (note)	40,921	–
Commission income	–	661
Gain on disposals of subsidiaries	–	2,631
Others	1,479	3,741
	42,758	7,233
Other gain and losses		
Impairment loss on exploration and evaluation assets	(56,400)	(699,200)
Impairment loss on intangible assets	(33,400)	(352,012)
Impairment loss on goodwill	(150,887)	(272,800)
Net fair value loss on equity investments at fair value through profit or loss	(136)	(3,766)
Net fair value gain on other financial assets	117,309	237,911
Net fair value gain on contingent consideration shares	–	193,315
(Loss)/gain on extinguishment of financial liabilities	(79,845)	8,005
Loss on disposal of equity investments at fair value through profit or loss	–	(1,136)
Exchange loss, net	(5,967)	(4,717)
Loss on disposal of property, plant and equipment	–	(23)
Others	–	(739)
	(209,326)	(895,162)

Note: Regarding the acquisition of the 100% issued share capital of China New Oriental Household Holdings Limited, as stated in 2015 annual report, the Company has already cancelled such acquisition and would recover 229,090,909 consideration shares ("Consideration Shares") and promissory notes to safeguard the shareholders interest. As at 31 December 2016, of the aforesaid 229,090,909 Consideration Shares, a total of 169,090,909 Consideration Shares had been already returned to the Company, and the representative of the vendor disposed of that batch of shares in the market at the request of the management of the Company, and all proceeds of the disposal were fully refunded to the Company. As at 31 December 2016, the representative of the vendor had refunded approximately HK$21,000,000 to the Company. Up to 31 March 2017, the remaining HK$19,921,000 was refunded to the Company. Of the remaining 60,000,000 Consideration Shares, the directors will continue to strive recovering these 60,000,000 Consideration Shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. FINANCE COSTS

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

	2016 HK$'000	2015 HK$'000
Interest on bank loans	4,805	4,189
Interest on strict bonds	40,579	26,512
Interest on convertible bonds	16,951	67,570
Interest on promissory notes	14,806	35,081
Imputed interest on other payables	11,303	3,799
Others	3,202	106
	91,646	137,257

7. LOSS BEFORE TAX

The Group's loss before tax is arrived after charging:

	2016 HK$'000	2015 HK$'000
Staff costs (including directors' remunerations)		
Salaries and allowances	21,632	24,426
Retirement benefit costs	664	741
Equity-settled share based payment	23,854	46,786
Total staff costs (including directors' remunerations)	46,150	71,953
Cost of inventories sold	699,534	822,307
Depreciation of property, plant and equipment		
– Owned assets	2,883	2,973
– Assets held under finance leases	361	361
Auditor's remuneration	1,100	1,100
Amortisation of intangible assets	28,400	86,152
Amortisation of lease premiums for land	3,959	3,959
Minimum lease payments under operating leases		
– land and buildings	13,483	13,247
Impairment loss on trade and bills receivables, net	32,444	18,984
Equity-settled share based payment		
Directors	4,372	10,131
Employees	19,482	36,655
Consultants	1,200	19,291
Total equity-settled share based payment	25,054	66,077

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. DIRECTORS' REMUNERATION

The directors' remuneration during the year were as follows:

	2016 HK$'000	2015 HK$'000
Fees	**611**	596
Other emoluments:		
Salaries, allowances and benefits in kind	**2,046**	2,385
Equity-settled share options expenses	**4,372**	10,131
Retirement benefit costs	**84**	82
	6,502	12,598
	7,113	13,194

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

For the year ended 31 December 2016

Name of directors	*Notes*	Fees HK$'000	Salary, allowances, and benefit in kind HK$'000	Retirement benefit costs HK$'000	Equity-settled share options expenses HK$'000	Total HK$'000
Executive directors						
Fu Zhenjun		–	417	22	1,682	2,121
Kuang Yuanwei		–	415	27	1,682	2,124
Li Zhixiong		–	734	26	–	760
Kaneko Hiroshi	*a*	–	480	9	–	489
		–	2,046	84	3,364	5,494
Non-executive directors						
Li Dikang	*b*	135	–	–	252	387
		135	–	–	252	387
Independent non-executive directors						
Loke Yu		173	–	–	252	425
Lin Xuebin		158	–	–	252	410
Yu Bingguang	*c*	145	–	–	252	397
		476	–	–	756	1,232
		611	2,046	84	4,372	7,113

8. DIRECTORS' REMUNERATION *(CONTINUED)*

For the year ended 31 December 2015

Name of directors	*Notes*	Fees *HK$'000*	Salary, allowances, and benefits in kind *HK$'000*	Retirement benefit costs *HK$'000*	Equity-settled share options expenses *HK$'000*	Total *HK$'000*
Executive directors						
Fu Zhenjun		–	307	19	2,702	3,028
Kuang Yuanwei		–	350	27	2,026	2,403
Li Zhixiong		–	688	18	2,026	2,732
Kaneko Hiroshi	*a*	–	1,040	18	3,377	4,435
		–	2,385	82	10,131	12,598
Non-executive directors						
Xie Jianming	*d*	52	–	–	–	52
Zhu Qi	*e*	52	–	–	–	52
Li Dikang	*b*	79	–	–	–	79
		183	–	–	–	183
Independent non-executive directors						
To Yan Ming, Edmond	*f*	113	–	–	–	113
Loke Yu		150	–	–	–	150
Lin Xuebin		150	–	–	–	150
		413	–	–	–	413
		596	2,385	82	10,131	13,194

Notes:

a) Mr. Kaneko Hiroshi resignated as executive director with effect from 1 June 2016.

b) Mr. Li Dikang was appointed as non-executive director with effect from 4 May 2015.

c) Mr. Yu Bingguang was appointed as independent non-executive director of the Company with effect from 11 March 2016.

d) Mr. Xie Jianming resigned as non-executive director with effect from 4 May 2015.

e) Mr. Zhu Qi resigned as non-executive director with effect from 4 May 2015.

f) Mr. To Yan Ming, Edmond resigned as independent non-executive director with effect from 10 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. DIRECTORS' REMUNERATION *(CONTINUED)*

Five highest paid employees

The five individuals whose remuneration were the highest in the Group included two (2015: two) executive directors. Details of the remuneration of the remaining three (2015: three) highest paid employees during the year are as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Salaries, allowances	**1,524**	1,285
Retirement benefits costs	**52**	43
Equity-settled share options expenses	**1,927**	–
	3,503	1,328

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

	2016 ***Number***	2015 *Number*
Nil – HK$1,000,000	**–**	3
HK$1,000,001 – HK$1,500,000	**3**	–
	3	3

– Salaries allowance and benefits in kind paid to or for the executive directors are generally emoluments paid or receivable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. INCOME TAX EXPENSE

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

	Notes	**2016** **HK$'000**	2015 HK$'000
Current tax			
– Hong Kong	*(a)*	**–**	692
– PRC	*(b)*	**23,644**	90,854
Under/(over) provision in respect of previous years			
– PRC	*(c)*	**39**	(740)
– Hong Kong	*(c)*	**–**	(53)
		23,683	90,753
Deferred tax		**17,881**	(39,479)
		41,564	51,274

(a) Hong Kong profit tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong.

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

(c) An under-provision for income tax in Hong Kong and the PRC were HK$nil and approximately HK$39,000 (2015: over-provision of approximately HK$740,000 and approximately HK$53,000) respectively.

A reconciliation of the tax expense applicable to loss before tax at the statutory rate of Hong Kong to the tax expense at the effective tax rates are as follows:

	2016 **HK$'000**	2015 HK$'000
Loss before tax	**(300,045)**	(1,036,678)
Tax credit at the statutory tax rate of 16.5%	**(49,507)**	(171,052)
Tax effect of expenses not deductible	**72,166**	245,575
Tax effect of income not taxable	**(5,176)**	(33,818)
Difference tax rates under different jurisdiction	**10,503**	20,183
Tax effect of temporary difference on depreciable assets not recognised	**108**	233
Utilisation of tax losses from previous years	**–**	(10,926)
Tax losses not recognised	**13,431**	1,872
Under/(over) provision in the previous year	**39**	(793)
Tax expense at effective tax rate	**41,564**	51,274

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. INCOME TAX EXPENSE *(CONTINUED)*

As at 31 December 2016, the Group has had losses of approximately HK$122,314,000 (2015: HK$51,741,000) available to offset future profits. No deferred tax asset has been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which losses can be utilised. Except for tax losses of approximately HK$9,090,000 (2015: HK$7,546,000) arising in the PRC that are available for offsetting against the taxable profits of the subsidiaries, the tax losses of approximately HK$113,225,000 (2015: HK$44,195,000) arising in Hong Kong may be carried forward indefinitely. The effect of temporary differences on depreciable assets is not material.

10. LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2016 includes a loss of HK$1,461,452,000 (2015: Profit of HK$109,669,000) which has been dealt with in the financial statements of the Company.

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

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

	2016 ***HK$'000***	2015 *HK$'000*
Loss		
Loss attributable to ordinary equity holders of the Company	**(341,528)**	(1,086,984)

	Number of shares	
	2016 ***'000***	2015 *'000*
Shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**4,687,203**	3,547,839

Diluted loss per share for the years ended 31 December 2016 and 2015 are same as basic loss per share for the respective years.

No adjustment has been made to the diluted loss per share amounts presented for the years ended 31 December 2016 and 2015 respectively as the convertible bonds outstanding had an anti-dilutive effect on basic loss per share amounts presented.

No adjustment has been made to the diluted loss per share for share options due to the exercise price of the share options was higher than the average market price for shares in 2016 and 2015 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. PROPERTY, PLANT AND EQUIPMENT

	Building *HK$'000*	Leasehold improvement *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixture and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:						
At 1 January 2015	24,324	3,735	1,497	4,995	3,467	38,018
Additions	–	–	19	172	–	191
Disposals	–	–	–	(45)	–	(45)
Disposals of subsidiaries	–	(954)	–	(445)	(1,018)	(2,417)
Exchange Realignment	–	(224)	(114)	(184)	(251)	(773)
At 31 December 2015 and January 2016	24,324	2,557	1,402	4,493	2,198	34,974
Addition	–	–	801	2,130	363	3,294
Exchange Realignment	–	(114)	(133)	(170)	(40)	(457)
At 31 December 2016	24,324	2,443	2,070	6,453	2,521	37,811
Accumulated Depreciation:						
At 1 January 2015	1,014	1,742	178	2,489	999	6,422
Provided for the year	1,014	740	127	836	617	3,334
Disposals of subsidiaries	–	–	–	(22)	–	(22)
Written back on disposal	–	(143)	–	(291)	(754)	(1,188)
Exchange Realignment	–	(72)	(17)	(80)	(23)	(192)
At 31 December 2015 and January 2016	2,028	2,267	288	2,932	839	8,354
Provided for the year	1,014	310	185	1,110	625	3,244
Exchange Realignment	–	(134)	(31)	(98)	(23)	(286)
As at 31 December 2016	3,042	2,443	442	3,944	1,441	11,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Building *HK$'000*	Leasehold improvement *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixture and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Net carrying amount:						
As at 31 December 2016	21,282	–	1,628	2,509	1,080	26,499
As at 31 December 2015	22,296	290	1,114	1,561	1,359	26,620

The net carrying amounts of the Group's property, plant and equipment held under finance leases included in the total amounts of motor vehicles at 31 December 2016 amounted to HK$461,000 (2015: HK$822,000).

13. LEASE PREMIUMS FOR LAND

	Group	
	2016 ***HK$'000***	2015 *HK$'000*
Carrying amount at 1 January	**109,849**	113,808
Amortisation	**(3,959)**	(3,959)
Carrying amount at 31 December	**105,890**	109,849
Classified as current assets	**3,959**	3,959
Classified as non-current assets	**101,931**	105,890

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

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14. DETAILS OF SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Greater China Mining Resources Limited	BVI/PRC	US$100	100%	–	Investment holding
Excel Growth Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding
Victory Chain Investment Limited	BVI/Hong Kong	US$1	100%	–	Security investment
Greater China Mining Resources Limited	Hong Kong/The PRC	HK$1	–	100%	Investment holding
陝西泰升達礦業有限公司 (Shannxi Tai Sheng Da Mining Company Limited)*#@	The PRC	Registered capital: RMB30,000,000	–	95%	Mining exploration
Aile Company Limited	Hong Kong	HK$1	–	100%	Trading of Wood
深圳市泓訊電子科技有限公司 (Shenzhen City Hong Xun Electronic and Technology Company Limited)*#^	The PRC	Registered capital: RMB5,000,000	–	100%	Provision of information and technologies services and sales of related products
m3 Technology Development Limited	Hong Kong	HK$1,000	–	100%	Provision of information and technologies services and sales of related products
中山市普納度風尚家居有限公司 (Zhongshan City Prado Style Household Company Limited)*#^	The PRC	Registered capital: USD25,000,000	–	100%	Trading of wooden furnishing products

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14. DETAILS OF SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Percentage of equity interest attributable to the Company Indirect	Principal activities
中山市維訊家居用品有限公司 (Zhongshan City Wei Xin Household Company Limited)*#^	The PRC	Registered capital: USD3,000,000	–	100%	Provision of virtual interior design simulation and electronic trading platform for selling household products
中山市維美家木制品有限公司 (Zhongshan City Kassade Wood Production Limited)*#^	The PRC	Registered capital: USD2,100,000	–	100%	Manufacturing of floor tiles, various wood frames and other household wood products
中山市極地陽光智能家居有限公司 (Zhongshan City Polar Sunshine Company Limited)*#^	The PRC	Registered capital: USD2,100,000	–	100%	Trading of heating wooden household products and other basic materials for heating wooden household products

* Elite Partners CPA Limited is not the statutory auditors.

\# The English names of these subsidiaries are directly translated from their Chinese names as no English names have been registered.

^ This subsidiary is registered as a wholly-foreign-owned enterprise under the PRC Law.

@ This subsidiary is registered as sino-foreign investment enterprise under the PRC Law.

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

The details of non-wholly owned subsidiaries of the Group that have material non-controlling interests as at 31 December 2016 and 2015 are set out below:

Name of indirect subsidiaries	Place of incorporation and principal activities	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016** *HK$'000*	2015 *HK$'000*	**2016** *HK$'000*	2015 *HK$'000*
Greater China Mining Resources Limited	BVI/Mining	**5%**	5%	**(80)**	(118)	**807**	887
Target Rich Investment Limited	BVI/Garment	**N/A**	N/A	**N/A**	(850)	**N/A**	–

15. EXPLORATION AND EVALUATION ASSETS

	Group	
	2016	2015
	HK$'000	*HK$'000*
At 1 January	**106,400**	805,600
Impairment loss for the year	**(56,400)**	(699,200)
At 31 December	**50,000**	106,400
Analysis of carrying amount is set out below:		
Cost	**1,699,829**	1,699,829
Accumulated impairment losses	**(1,649,829)**	(1,593,429)
	50,000	106,400

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

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

During the year ended 31 December 2016, the Group has not incurred any cost in relation to topography survey and feasibility study. The Group has not carried out any development nor production activity during the year. None of the exploration and evaluation costs were transferred to the property, plant and equipment as the directors of the Company are of the opinion that the exploration properties were not capable of commercial production at the end of the reporting period.

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15. EXPLORATION AND EVALUATION ASSETS *(CONTINUED)*

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

	2016 HK$'000	2015 HK$'000
Operating activities	(1,616)	(3,014)
Investing activities	–	(3)
	(1,616)	(3,017)

With respect to titanium magnetite, in considering the numerous factors such as (i) the latest titanium magnet price fluctuation; (ii) the mining license that will expire in 2019 and the titanium magnetite legal risks; (iii) a huge amount of capital investment is required before the mining and operation of titanium magnetite can proceed; and (iv) the Company is conducting a number of projects currently, the management of the Company decided to delay the schedule of the mining of titanium magnetite and its capital investment. Based on the legal opinion, the management of the Company made a provision of approximately HK$56,400,000 in respect of titanium magnetite. Subsequently, the Company will also actively update the overall assessment on titanium magnetite to verify the feasible development of such business and the impact of its market fluctuation on its development, while at the same time will not preclude identifying suitable investment partners to jointly develop or dispose of the titanium magnetite.

As at 31 December 2016, the directors of the Group conducted an impairment review on the exploration and evaluation assets. The Group determined the recoverable amounts of cash generating unit ("CGU") for the Mine based on value in use calculation. The calculation used cash flows projections based on financial budgets as approved by management covering a period which is determined by the mineral resources of the Mine, and discount rate of 15.81% (2015: 14.84%) for the Mine with reference to the valuation performed by an independent professional valuer as at 31 December 2016. The recoverable amount of the exploration and evaluation assets as at 31 December 2016 was approximately HK$50,000,000. As the recoverable amount of the CGU of the Mine was below the carrying amount, an impairment loss of approximately HK$56,400,000 (2015: HK$699,200,000) has been recognised to profit or loss and included in other losses in the consolidated statement of profit or loss in 2016.

16. INTANGIBLE ASSETS

	Customer relationship *Note a* *HK$'000*	Other intangible assets *Note b* *HK$'000*	Computer software *Note c* *HK$'000*	Far infrared heating technology *Note d* *HK$'000*	Exclusive rights *Note e* *HK$'000*	Total *HK$'000*
At 1 January 2015	14,846	41,876	4,000	134,000	–	194,722
Additions through acquisition of subsidiary	–	–	–	–	404,056	404,056
At 31 December 2015 and 1 January 2016	14,846	41,876	4,000	134,000	404,056	598,778
Written off	–	–	–	–	(404,056)	(404,056)
As at 31 December 2016	14,846	41,876	4,000	134,000	–	194,722
Accumulated amortisation and impairment loss:						
At 1 January 2015	(5,938)	(28,876)	(2,600)	(13,400)	–	(50,814)
Provided for the year	(2,969)	(8,375)	(800)	(13,400)	(60,608)	(86,152)
Impairment loss recognised	(3,939)	(4,625)	–	–	(343,448)	(352,012)

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16. INTANGIBLE ASSETS *(CONTINUED)*

	Customer relationship *Note a* *HK$'000*	Other intangible assets *Note b* *HK$'000*	Computer software *Note c* *HK$'000*	Far infrared heating technology *Note d* *HK$'000*	Exclusive rights *Note e* *HK$'000*	Total *HK$'000*
At 31 December 2015 and 1 January 2016	(12,846)	(41,876)	(3,400)	(26,800)	(404,056)	(488,978)
Provided for the year	(1,000)	–	(600)	(26,800)	–	(28,400)
Impairment loss recognised	–	–	–	(33,400)	–	(33,400)
Eliminated on written off	–	–	–	–	404,056	404,056
At 31 December 2016	(13,846)	(41,876)	(4,000)	(87,000)	–	(146,722)
Net carrying value:						
At 31 December 2016	**1,000**	**–**	**–**	**47,000**	**–**	**48,000**
At 31 December 2015	2,000	–	600	107,200	–	109,800

Note:

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

During the year ended 31 December 2015, an impairment loss of approximately HK$3,939,000 was recognised to write down the carrying amount of the customer relationship to their recoverable amount.

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

During the year ended 31 December 2015, an impairment loss of approximately HK$4,625,000 was recognised to write down the carrying amount of the Trademark, Copyright and Patent to their recoverable amount.

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

d.) Far infrared heating technology, which was acquired through business combination on 17 July 2014, is the technology that allows household products to value add with heating feature. The useful life of the technology is 5 years.

During the year ended 31 December 2016, an impairment loss of approximately HK$33,400,000 was recognised to write down the carry amount of the Far infrared heating technology to their recoverable amount.

e.) Exclusive rights, which was acquired on 30 March 2015, represents the distribution businesses related to the intelligent household system products. The useful life of the exclusive rights is 5 years.

During the year ended 31 December 2015, an impairment loss of approximately HK$343,448,000 was recognised to write down the carrying amount of the exclusive rights to their recoverable amount.

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17. OTHER FINANCIAL ASSETS

	Note	2016 HK$'000	2015 HK$'000
Chang Ye Group	(a)	–	–
Red Hero Group	(b)	–	287,551
Kassade Group	(c)	179	1,240
Polar Sunshine Group	(d)	–	–
New Oriental Group	(e)	–	72,704
		179	361,495

Other financial assets represented the Group's right to receive cash or to adjust the principal amount of certain promissory note issued as consideration to acquire investee arising from a number of profit guarantee arrangements in relation to the acquisition i) Chang Ye Holdings Limited ("Chang Ye"), together with its subsidiaries, collectively the ("Chang Ye Group"), ii) Red Hero International Limited ("Red Hero"), together with its subsidiaries, collectively the ("Red Hero Group"), iii) Kassade Investment Limited ("Kassade"), together with its subsidiaries, collectively the ("Kassade Group"), iv) Polar Sunshine Wood Holdings Company Limited ("Polar Sunshine"), together with its subsidiaries, collectively the ("Polar Sunshine Group") and v) China New Oriental Household Holding Limited ("New Oriental"), together with its subsidiaries ("New Oriental Group").

(a) On 3 January 2013, the Group acquired the 100% equity interest of Chang Ye Group. The total consideration was satisfied by way of the issue of a promissory note with principal value of HK$60,000,000, subject to adjustment if the profit guarantee for the relevant profit guaranteed period set out in the relevant sales and purchases agreement is not achieved. The promissory note was issued on 3 January 2013.

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

The after-tax net profit of Chang Ye Group for each of the financial years ended 31 December 2013, 2014 and 2015 was above the abovementioned profit target and hence there had been no reduction in the principal amount of the promissory note.

(b) On 31 December 2013, the Group acquired 100% equity interest of Red Hero Group. The total consideration was satisfied by way of the issue of convertible bond ("CB3") with an aggregate nominal value of HK$480,000,000 subject to adjustment if the profit guarantee for the relevant profit guaranteed period set out in the relevant sales and purchases agreement is not achieved. The convertible bond was issued on 31 December 2013.

Pursuant to the relevant sales and purchase agreement, the profit guarantee for Red Hero Group total net profit after tax for the years ended 31 December 2014, 2015 and 2016 shall not be less than HK$2,600,000, HK$76,000,000 and HK$162,000,000 respectively. In the event when the guaranteed profit is not met, the principal amount of convertible bond will be reduced in proportion to the shortfall amount. On 30 March 2016, the Group and the vendor, namely Noble Wonderland Limited, entered into a supplemental agreement that both parties agreed to cancel the profit guarantee requirement for the year ended 31 December 2015 and for the year ending 2016. The principal amount of convertible bond was reduced to HK$5,187,000 based on the actual performance for the year ended 31 December 2014, with other terms remain unchanged.

(c) On 11 July 2014, the Group acquired 100% equity interest of Kassade Group. The total consideration was satisfied by way of the issue of a promissory note with principal value of HK$100,000,000 subject to the adjustment if the profit guarantee for the relevant profit guaranteed period set out in the relevant sales and purchases agreement is not achieved. The promissory note was issued on 11 July 2014 as disclosed in Note 30(c) to the consolidated financial statement.

17. OTHER FINANCIAL ASSETS *(CONTINUED)*

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

The profit guarantee in respect of the year ended 31 December 2014, 2015 and 2016 were met. The after-tax net profit of Kassade Group for the year ended 31 December 2016 amounted to approximately HK$16,146,000. The director of the Company are confident that the profit targets in respect of the year ended 31 December 2017 and 2018 will be met.

(d) On 17 July 2014, the Group acquired 100% equity interest of Polar Sunshine Group. The total consideration was satisfied by way of the issue of 356,000,000 consideration shares. All consideration shares were issued in July 2014.

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

The after-tax net profit of Polar Sunshine Group for each of the financial years ended 31 December 2014, 2015 and 2016 were above the abovementioned profit targets and hence there had been no shortfall.

(e) On 30 March 2015, the Group acquired 100% equity interest of New Oriental Group. The total consideration were satisfied by way of the issue of i) 229,090,909 consideration shares of the Company ("Batch One Shares"), ii) 310,909,091 consideration shares of the Company ("Batch Two Shares") and the promissory note with principal value of HK$123,000,000 ("PN5"). Batch One Shares were issued in March 2015. Batch Two Shares will be issued by the Company if the guaranteed profit for the year ended 31 December 2015, 2016 and 2017 are met and the promissory note of HK$123,000,000 will be released from escrow account. The PN5 was subject to adjustment of the amount if the profit guarantee for the profit guaranteed period for the year ending 31 December 2017 is not met.

Pursuant to the sales and purchase agreement, the profit guarantee in relation to Batch Two Shares for New Oriental Group's total net profit after tax shall not be less than HK$75,000,000, HK$100,000,000 and HK$120,000,000 for the years ended/ending 31 December 2015, 2016 and 2017 respectively. In event when the guaranteed profit for the year ending 31 December 2017 is not met, the shortfall amount will set off against the principal of promissory note.

Since the profit guarantee for the financial years ended 31 December 2015 and 2016 were not satisfied, no Batch Two Shares have been issued by the Company.

During the year ended 31 December 2016, the Company has already cancelled such acquisition of New Oriental Group as they did not met the profit guarantee for the year ended 2015 and 2016.

In the opinion of directors of the Company, since the acquisition has been cancelled and the relevant subsidiary was in the process of deregistration was substantially completed in 2016, the relevant promissory note was no longer enforceable upon the cancellation of the acquisition. As such, the promissory note and the corresponding other financial assets was fully derecognised accordingly.

The fair value of the other financial assets as at 31 December 2015 are based on valuation performed by an independent professional valuer, by using a probabilistic model.

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18. DEFERRED TAX

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

	Deferred revenue HK$'000	Intangible assets HK$'000	Total HK$'000
At 1 January 2015	–	(32,377)	(32,377)
Credited to the consolidated statement of profit or loss during the year	34,402	5,077	39,479
At 31 December 2015 and 1 January 2016	34,402	(27,300)	7,102
Credited/(debited) to the consolidated statement of profit or loss during the year	(33,181)	15,300	(17,881)
At 31 December 2016	1,221	(12,000)	(10,779)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	2016 ***HK$'000***	2015 *HK$'000*
Deferred tax assets	**1,221**	34,402
Deferred tax liabilities	**(12,000)**	(27,300)
	(10,779)	7,102

19. GOODWILL

	The Group *HK$'000*
Cost:	
At 1 January 2015, 1 January 2016 and 31 December 2016	819,453
Accumulated impairment:	
At 1 January 2015	166,804
Impairment loss recognised	272,800
At 31 December 2015 and 1 January 2016	439,604
Impairment loss recognised	150,887
At 31 December 2016	590,491
Net carrying value:	
At 31 December 2016	**228,962**
At 31 December 2015	379,849

19. GOODWILL *(CONTINUED)*

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

	2016 **HK$'000**	2015 *HK$'000*
Chang Ye Group	**35,931**	35,931
Red Hero Group	**25,373**	146,000
Kassade Group	**59,869**	59,869
Polar Sunshine Group	**107,789**	138,049
	228,962	379,849

Such goodwill has been allocated to the business segment of household furniture since the acquisitions.

Chang Ye Group

The Group performed its annual impairment test for goodwill allocated to the Chang Ye Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five year period approved by management have been extrapolated with an estimated general annual growth of 3% (2015: 3%) for a five-year period. The discount rate used of 32.90% (2015: 32.21%) reflects specific risks related to the relevant segment. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

Red Hero Group

The Group performed its annual impairment test for goodwill allocated to the Red Hero Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five-year period approved by management have been extrapolated with an estimated general annual growth of 3% (2015: 3%) for a five-year period. The discount rate used of 33.66% (2015: 29.00%) reflects specific risks related to the relevant segment. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

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19. GOODWILL *(CONTINUED)*

Kassade Group

The Group performed its annual impairment test for goodwill allocated to the Kassade Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five-year period approved by senior management have been extrapolated with an estimated general annual growth of 3% (2015: 3%) for a five-year period. The discount rate used of 20.81% (2015: 17.63%) reflects specific risks related to the relevant segment. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

Polar Sunshine Group

The Group performed its annual impairment test for goodwill allocated to the Polar Sunshine Group by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on a five-year financial budget approved by management. Cash flows beyond a five year period approved by management have been extrapolated with an estimated general annual growth of 3% (2015: 3%) for a five-year period. The discount rate used of 22.32% (2015: 21.86%) reflects specific risks related to the relevant segment. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

During the year ended 31 December 2016, due to the unsatisfactory performance of sales of wooden furnishing products segment in 2016, the Group recognised an impairment loss of approximately HK$150,887,000 (2015: HK$272,800,000).

20. INVENTORIES

	2016 ***HK$'000***	2015 *HK$'000*
Raw materials	**30,318**	21,822
Finished goods	**104,640**	123,877
	134,958	145,699

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21. TRADE AND BILLS RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade and bills receivables	**299,369**	272,655
Impairment	**(134,454)**	(109,351)
	164,915	163,304

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

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

	2016 HK$'000	2015 HK$'000
Current	**73,850**	49,170
31-60 days	**65,022**	23,368
61-90 days	**9,691**	27,572
91-180 days	**8,345**	46,942
Over 180 days	**142,461**	125,603
	299,369	272,655

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

	2016 HK$'000	2015 HK$'000
At 1 January	**109,351**	96,192
Impairment loss for the year	**33,029**	92,186
Impairment losses reversed	**(585)**	(73,202)
Exchange realignment	**(7,341)**	(5,825)
At 31 December	**134,454**	109,351

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of approximately HK$33,029,000 (2015: HK$92,186,000) with a carrying amount before provision of approximately HK$197,944,000 (2015: HK$255,490,000).

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21. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

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

	2016 **HK$'000**	2015 *HK$'000*
Neither past due nor impaired	**101,434**	96,594
Less than 1 month past due	**55,474**	10,232
1 to 3 months past due	**–**	40,226
Over 3 months past due	**8,007**	16,252
	164,915	163,304

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, and the directors have performed an assessment, they 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.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 **HK$'000**	2015 *HK$'000*
Other receivables	**165,195**	75,431
Prepayments and deposits	**38,498**	71,410
Advance to suppliers	**123,071**	390,183
	326,764	537,024

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

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

	2016 **HK$'000**	2015 *HK$'000*
At 1 January	**–**	8,979
Amount written off	**–**	(8,979)
Impairment loss for the year	**–**	–
At 31 December	**–**	–

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 **HK$'000**	2015 *HK$'000*
Listed equity investments, at market value:		
Hong Kong	**1,106**	4,383

The above equity investments at 31 December 2016 and 2015 were classified as held for trading and were measured at the end of each of the reporting period at fair value through profit or loss.

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24. CASH AND CASH EQUIVALENTS

	2016 HK$'000	2015 HK$'000
Cash and bank balances	**563,429**	408,872

At 31 December 2016, approximately HK$559,981,000 (2015: HK$407,262,000) of the Group's cash and bank balances were denominated in Renminbi, which is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchanges, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. BANK LOANS AND STRICT BONDS

	2016 HK$'000	2015 HK$'000
Bank borrowings		
Bank loans, secured *(notes (i))*	**52,930**	56,720
Other borrowings		
Strict bonds, unsecured *(note (ii))*	**511,215**	424,177
Total borrowings	**564,145**	480,897
Classified as current liabilities	**(184,093)**	(123,220)
Non-current liabilities	**380,052**	357,677

25. BANK LOANS AND STRICT BONDS *(CONTINUED)*

Notes:

(i) The bank loan in year ended 31 December 2016 and 2015 of RMB47,398,289 (approximately equivalent to HK$52,930,000) and RMB47,500,000 (approximately equivalent to HK$56,720,000) respectively were secured by personal guarantee in year ended 31 December 2016 and 2015 of RMB47,398,289 (approximately equivalent to HK$52,930,000) and RMB47,500,000 (approximately equivalent to HK$56,720,000) respectively put up by a director of the Company and his spouse; certain land and buildings held by 中山嘉冠實業有限公司, a related company controlled by a director and his spouse.

(ii) During the year ended 31 December 2016, the Group issued certain fixed rate strict bonds repayable ranging from 1 to 8 years. The fixed coupon rate and effective interest rate are ranging from 3.5% to 10% per annum in which approximately of HK$511,215,000 (2015: HK$424,177,000).

The Company has the right to early redeem in full or in part of the principal amount thereon at any time prior to the maturity date. The fair value of early redemption at the date of issuance and as at year ended 31 December 2016 was HK$Nil.

The strict bonds are repayable as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Within one year	**131,163**	66,500
Between two to five years	**264,669**	106,400
After five years	**115,383**	251,277
	511,215	424,177

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

	2016 ***HK$'000***	2015 *HK$'000*
Hong Kong dollar	**511,215**	424,177
Renminbi	**52,930**	56,720
	564,145	480,897

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26. TRADE PAYABLES

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

	2016 **HK$'000**	2015 HK$'000
Current	**83,104**	11,986
31-60 days	**132**	7,987
61-90 days	**7,439**	837
91-180 days	**624**	1,063
Over 180 days	**12,253**	14,244
	103,552	36,117

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

27. OTHER PAYABLES AND ACCRUALS

	Notes	**2016** **HK$'000**	2015 HK$'000
Other payables	*i*	**187,230**	261,376
Amounts due to directors	*ii*	**–**	11,055
Provision for product rectification	*iii*	**8,773**	5,846
Accruals		**54,721**	68,915
Total		**250,724**	347,192
Classified as current liabilities		**(210,783)**	(205,609)
Non-current liabilities		**39,941**	141,583

Included in other payables and accruals was an amount of approximately HK$5,187,000 regarding a matured convertible bonds. The convertible bond was matured on 31 December 2016. However the Company has received claims from two different parties both claiming to be the ultimate beneficial owner of the convertible bond. The Company had withheld from repaying the principal amount and interest due under the convertible bond pending resolution of the dispute.

Notes:

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

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

27. OTHER PAYABLES AND ACCRUALS *(CONTINUED)*

Notes: (continued)

(iii) Provision for product rectification

The movement of provision for product rectification is as follows:

	2016 **HK$'000**	2015 *HK$'000*
At 1 January	**5,846**	–
Addition during the year	**3,461**	6,084
Exchange realignment	**(534)**	(238)
At 31 December	**8,773**	5,846

Under the terms of certain of the Company's decoration agreements with customers and service agreements with furniture products combo, the Group agrees to rectify product defects within a period not more than two years from the date of project accepted by customers. Provision is established to meet liabilities as they fall due and made based on the best estimates of the expected settlements under these agreements in respect of sales made prior to the end of the reporting period. The amount of provision is only made where it is probable that an outflow of resources will be required to settle the claim.

28. OBLIGATION UNDER FINANCE LEASES

	Minimum lease payments		**Present value of minimum lease payments**	
	2016 **HK$'000**	2015 *HK$'000*	**2016** **HK$'000**	2015 *HK$'000*
Within one year	**185**	185	**170**	160
Between two and five years	**184**	369	**179**	336
	369	554	**349**	496
Less: Future finance charge	**(20)**	(58)	**–**	–
	349	496	**349**	496
Classified as current liabilities			**(170)**	(147)
Non-current liabilities			**179**	349

The effective interest for obligation under finance leases are 3% (2015: 3%). The average lease term is 3 years (2015: 3 years).

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29. CONVERTIBLE BONDS

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

	2016 *HK$'000*	2015 *HK$'000*
CB 1	–	19,771
CB 3	–	287,551
CB 4	–	–
CB 5	–	75,063
CN 1	–	–
CB 6	–	–
CB 7	–	–
CB 8	–	–
Total	–	382,385
Classified as current liabilities	–	(307,322)
Non-current liabilities	–	75,063

CB 1

On 9 July 2013, the Company issued 2% convertible bonds with an aggregate nominal value of HK$71,916,160 (the "CB 1") to repay the convertible bonds issued in 2010 with principal value of approximately HK$71,996,000. The maturity date of the CB 1 is at the end of 30th months of the date of issue of the convertible bonds (i.e. The Maturity Date is 8 January 2016). The bondholders have the rights to convert the bonds into approximately 97,184,000 conversion shares at initial conversion price of HK$0.74 per conversion share. The outstanding principal amounts of the CB 1 as at 31 December 2016 was HK$Nil (2015: HK$20,116,160).

	Liability component *HK$'000*	**Equity component** *HK$'000*	**Total** *HK$'000*
At 1 January 2015	**14,827**	**9,362**	**24,189**
Imputed interest expense	**5,346**	**–**	**5,346**
Interest paid and payable	**(402)**	**–**	**(402)**
At 31 December 2015 and 1 January 2016	**19,771**	**9,362**	**29,133**
Imputed interest expense	**3,005**	**–**	**3,005**
Interest paid and payable	**(8)**	**–**	**(8)**
Transferred to other payable on maturity	**(22,768)**	**(9,362)**	**(32,130)**
At 31 December 2016	**–**	**–**	**–**

29. CONVERTIBLE BONDS *(CONTINUED)*

CB 3

As mentioned as note 17(b) to the Group's consolidated financial statements, the Company issued 2% convertible bonds with principal value of HK$480,000,000 (the "CB 3") as a consideration for the acquisition of Red Hero Group in January 2015. The maturity date of the CB 3 is the 3rd anniversary of the date of the issue of the CB 3 (i.e. 30 December 2016). The CB 3 carries interest at a rate of 2% per annum which is payable annually in arrears after the date of issue. The bondholders have the rights to convert the CB 3 into ordinary shares of the Company on or before the third anniversary from the issue date of the CB 3 with the conversion price of HK$0.90 per share, subject to adjustments. The Company is entitled to early redeem the CB 3 in whole or in part at a price equal the outstanding principal amount plus interest accrued thereon. As at 30 December 2016, the Group has not fulfilled certain of the financial and operational related covenants, and accordingly, the convertible bonds have become repayable on demand and have been classified as other payables.

	Liability component *HK$'000*	Equity component *HK$'000*	Total *HK$'000*
1 January 2015	369,094	154,885	523,979
Imputed interest expenses	60,826	–	60,826
Interest payable	(9,600)	–	(9,600)
Hair cut during the year due to profit guarantee shortfall	(132,769)	(48,925)	(181,694)
At 31 December 2015 and 1 January 2016	287,551	105,960	393,511
Imputed Interest expense	12,249	–	12,249
Interest payable	(104)	–	(104)
Hair cut during the year due to profit guarantee short fall	(294,509)	(104,287)	(398,796)
Transferred to other payable on maturity	(5,187)	(1,673)	(6,860)
At 31 December 2016	–	–	–

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29. CONVERTIBLE BONDS *(CONTINUED)*

CB 4

On 21 August 2015, the Company issued zero coupon convertible bonds with an aggregate nominal value of HK$226,219,436 (the "CB 4"). The maturity date is 20 August 2018. The bondholders have the rights to convert into approximately 665,351,000 conversion shares at initial conversion price of HK$0.34 per conversion share. Up to 31 December 2015, all of the CB 4 have been converted, at a conversion price of HK$0.34 into 665,351,000 ordinary shares of HK$0.001 each.

	Liability component *HK$'000*	Equity component *HK$'000*	Total *HK$'000*
At 1 January 2015	–	–	–
Issue of convertible bonds	170,389	55,830	226,219
Conversion into shares during the year	(171,511)	(55,830)	(227,341)
Imputed interest expense	1,122	–	1,122
At 31 December 2015	–	–	–

CB 5

On 16 December 2015, the Company issued 3% convertible bonds with an aggregate nominal value of HK$83,702,576 (the "CB 5") to repay certain promissory notes and accrued interest. The maturity date is 15 December 2017. The bondholders have the rights to convert into approximately 558,017,000 conversion shares at initial conversion price of HK$0.15 per conversion share. Up to 31 December 2016, all of the CB5 have been converted, at a conversion price of HK$0.15 into 558,017,167 ordinary shares of HK$0.001 each.

	Liability component *HK$'000*	Equity component *HK$'000*	Total *HK$'000*
At 1 January 2015	–	–	–
Issue of convertible bonds	74,789	8,914	83,703
Imputed interest expense	274	–	274
At 31 December 2015 and 1 January 2016	75,063	8,914	83,977
Imputed Interest expense	651	–	651
Conversion into shares during the year	(75,714)	(8,914)	(84,628)
At 31 December 2016	–	–	–

29. CONVERTIBLE BONDS *(CONTINUED)*

CB 6

On 2 June 2016, the Company issued zero coupon convertible bonds with an aggregate principal amount of HK$25,000,000 (the "CB 6"). The maturity date of the CB 6 is at the 3rd anniversary of the date of the issue of the convertible bonds (i.e. 1 June 2019). The bondholders have the rights to convert into approximately 250,000,000 conversion shares respectively at initial conversion price of HK$0.10 per conversion share. Up to 31 December 2016, all of the CB 6, have been converted.

	Liability Component *HK$'000*	Equity Component *HK$'000*	Total *HK$'000*
At 1 January 2016	–	–	–
Issue of convertible bonds	18,017	6,233	24,250
Conversion into shares during the year	(18,017)	(6,233)	(24,250)
At 31 December 2016	–	–	–

CB 7

On 26 October 2016, the Company issued 3% convertible bonds with principal value of HK$90,000,000 (the "CB 7") for the settlement of (i) HK$75,000,000 Promissory note issued in 11 July 2014 (the "PN 4") (see note 30(b)); (ii) loan payable and interest of approximately HK$12,075,000; and (iii) the remaining balance of HK$2,945,452 was received by the Group in cash. The CB 7 bears interest at 3% per annum and payable on 25 October 2019 (the "CB 7 Maturity Date"). The bondholders have the rights to convert the whole or part of the outstanding principal amount of the CB 7 into approximately 900,000,000 conversion shares at HK$0.10 (the "Conversion Price") per share at any time during the period from 26 October 2016 to CB 7 maturity date. Unless previously converted, the CB 7 will be redeemed by the Company on the CB 7 Maturity Date at its principal amount outstanding and interest. The Company shall have the right to redeem the whole or any part(s) of the principal amount of the Convertible Bonds at any time on any business day prior to the Maturity Date (the "CB 7 Early Redemption Right"). Up to 31 December 2016, the bondholder converted the entire outstanding CB 7 with principal amount of approximately HK$90,000,000, at a conversion price of HK$0.10 into 900,000,000 ordinary shares of the Company. The outstanding principal amounts of the CB 7 as at 31 December 2016 was HK$Nil.

	Liability Component *HK$'000*	Equity Component *HK$'000*	Total *HK$'000*
At 1 January 2016	–	–	–
Issue of convertible bonds	69,129	80,876	150,005
Imputed interest expense	1,046	–	1,046
Interest paid and payable	(413)	–	(413)
Conversion into shares during the year	(69,762)	(80,876)	(150,638)
At 31 December 2016	–	–	–

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29. CONVERTIBLE BONDS *(CONTINUED)*

CB 8

On 14 October 2016, the Company issued zero coupon convertible bonds with principal value of HK$2,706,580 (the "CB 8"). The maturity date of the CB 8 is 13 October 2017. The bondholders have the rights to convert the whole or part(s) of the outstanding principal amount of the CB 8 into 27,065,800 conversion shares at HK$0.10 (the "Conversion Price") per share at any time during the period commencing from 14 October 2016 to CB 8 maturity date. Unless previously converted, the CB 8 will be redeemed by the Company on the Maturity Date at its principal amount outstanding. The Company shall have the right to redeem the whole or any part(s) of the principal amount of the Convertible Bonds at any time on any business day prior to the Maturity Date (the "CB 8 Early Redemption Right"). Up to 31 December 2016, the bondholder converted the entire outstanding CB 8 with principal amount of approximately HK$2,707,000, at a conversion price of HK$0.10 into 27,066,000 ordinary shares of the Company. The outstanding principal amounts of the CB 8 as at 31 December 2016 was HK$Nil.

	Liability Component *HK$'000*	Equity Component *HK$'000*	Total *HK$'000*
At 1 January 2016	–	–	–
Issue of convertible bonds	2,357	458	2,815
Conversion into shares during the year	(2,357)	(458)	(2,815)
At 31 December 2016	–	–	–

30. PROMISSORY NOTES

	2016	2015
	HK$'000	*HK$'000*
PN3	–	36,489
PN4	–	74,767
PN5	–	72,704
PN6	**1,666**	3,000
Total	**1,666**	186,960
Classified as current liabilities	**(1,666)**	(39,489)
Non-current liabilities	–	147,471

(a) On 9 October 2015, the Company settled loan payable with principal value of HK$3,000,000 by way of issuing a promissory note (the"PN 6").The PN 6 bears interest at 3% per month and is payable on 8 January 2016 (the "PN Maturity Date").

On 9 January 2016, the Company and the holder of the PN6 agreed to renewed the maturity date to 8 April 2016. The interest has been incurred to 4% per month and is payable on 8 April 2016.

On 9 April 2016, the Company has renewed maturity date at 8 July 2016. The principal of PN 6 has been increased to HK$3,630,000 which include the original principal of HK$3,000,000 and accrued interest for past six months of HK$630,000.

On 8 July 2016, the Company has renewed maturity date at 8 October 2016. The principal of PN 6 has been increased to HK$4,065,600 which includes the revised principal of HK$3,630,000 and accrued interest of HK$435,600.

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30. PROMISSORY NOTES *(CONTINUED)*

(a) *(continued)*

On 14 October 2016, the Company and the holder of the promissory note agreed to settle the liabilities of HK$2,400,000 and accrued interest HK$300,000 by issuing Convertible bonds with the principal of about HK$2,700,000 ("CB 8") as disclosed in note 29 to the consolidated financial statements. At the result, the amount of HK$1,665,600 is still outstanding after issuing CB8.

On 14 October 2016, the Company and the holder of the PN6 to agreed to renewed the maturity date to 31 December 2016 with the principal amount of HK$1,665,600.

On 31 December 2016, the Company and the holder of the PN6 to agreed to renewed the maturity date to 31 March 2017 with the principal value of approximately HK$1,665,600. The PN6 bears interest at 4% per month and the Company is payable the principal amount and accrued interest on 31 March 2017. The Company has the right to redeem in full or in part of the principal amount of the PN 6 prior to the PN 6 Maturity Date.

(b) On 30 March 2015, the Company issued an unsecured promissory note with principal value of HK$123,000,000 (the "PN5") for the acquisition of intangible assets through acquisition of subsidiaries. The PN5 bears interest at 0.5%.

The details as disclosed in note 17 to the consolidated financial statement.

(c) On 11 July 2014, the Company issued an unsecured promissory note with principal value of HK$100,000,000 (the "PN4") for the acquisition of subsidiaries. The PN4 does not carry any interest and fall due on 10 July 2019 (the "PN4 Maturity Date"). The fair value of the PN4 at the date of acquisition of subsidiaries was approximately HK$66,135,000.The Company has the right to redeem in full or in part of the principal amount together with interest accrued thereon at any time prior to the PN4 Maturity Date (the "PN4 Early Redemption Right").

On 2 June 2016, the Company early redeemed the Promissory Note (the "PN4") with principal value of approximately HK$25,000,000 by way of issuing convertible bonds with principal value of approximately HK$25,000,000 (the "CB 6").

On 26 October 2016, the Company early redeemed a portion of Promissory note with principal value of approximately HK$75,000,000 by way of issuing convertible bonds with principal value of approximately HK$90,000,000 (the "CB 7").

During the year ended 31 December 2016, imputed interest of approximately HK$4,732,000 (2015: HK$5,931,000) was charged to profit or loss of the Group.

(d) On 31 March 2016, the Company redeemed the principal amount of approximately HK$36,500,000 the PN 3 on maturity date. The PN3 bears interest at 4% per annum and payable in the 31st day of December each year.

During the year ended 31 December 2016, imputed interest of approximately HK$375,000 (2015: HK$5,763,000) was charged to profit or loss of the Group.

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31. SHARE CAPITAL

Authorised:

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

Issued and fully paid:

	No. of ordinary shares	*HK$'000*
As at 1 January 2015 (HK$0.001 each)	3,166,398,964	3,166
Issue of shares for the acquisition of subsidiaries *(note a)*	229,090,909	229
Issue of shares under share option scheme *(note b)*	250,000	1
Issue of shares upon the conversion of convertible bonds *(note c)*	673,267,280	673
Issue of remuneration shares *(note d)*	10,000,000	10
As at 31 December 2015 and 1 January 2016	4,079,007,153	4,079
Issue of shares upon the conversion of convertible bonds *(note e)*	1,735,082,967	1,735
Issue of shares under share option scheme *(note f)*	15,000,000	15
As at 31 December 2016	5,829,090,120	5,829

Note:

(a) On 30 March 2015, 229,090,909 new ordinary shares of HK$0.001 each of the Company were issued for the first tranche of consideration share for the acquisition of 100% equity interests in New Oriental Group.

(b) On 13 May 2015, 250,000 ordinary shares were issued to share option holder who had exercised his option.

(c) During the year ended 31 December 2015, certain convertible bonds and convertible notes with an aggregate principal amount of HK$227,119,356 were converted into 673,267,280 ordinary shares of the Company as set out as below:

   i. CN 1 with aggregate principal amount of HK$949,920 were converted into 7,916,000 ordinary shares of the Company at a conversion price of HK$0.12 each

   ii. CB 4 with aggregate principal amount of HK$226,219,436 were converted into 665,351,280 ordinary shares of the Company at a conversion price of HK$0.34 each

(d) On 30 September 2015, the Company issued and allotted 10,000,000 Remuneration Shares as to Chanceton Capital Partners Limited. The premium on the issue of shares amounting to approximately HK$2,990,000 was credited to the Company's share premium account.

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31. SHARE CAPITAL *(CONTINUED)*

Note (continued)

(e) During the period ended 31 December 2016, certain convertible bonds with an aggregate principal amount of HK$201,409,156 were converted into 1,735,082,967 ordinary shares of the Company as set out as below:

(i) CB 5 with aggregate principal amount of HK$83,702,576 were converted into 558,017,167 ordinary shares of the Company at a conversion price of HK$0.15 each

(ii) CB 6 with aggregate principal amount of HK$25,000,000 were converted into 250,000,000 ordinary shares of the Company at a conversion price of HK$0.10 each

(iii) CB 7 with aggregate principal amount of HK$90,000,000 were converted into 900,000,000 ordinary shares of the Company at a conversion price of HK$0.10 each

(iv) CB 8 with aggregate principal amount of HK$2,706,580 were converted into 27,065,800 ordinary shares of the Company at a conversion price of HK$0.10 each

(f) On 3 November 2016, 15,000,000 ordinary shares were issued to the share option holder who had exercised his option.

32. RESERVES

(a) Group

(i) Share premium

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

(ii) Capital reserves

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

(iii) Contributed surplus

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

(iv) Statutory reserves

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

32. RESERVES *(CONTINUED)*

(b) Company

	Share premium HK$'000	Contributed surplus* HK$'000	Employee share option reserves HK$'000	Equity component of convertible bonds HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	1,908,071	388,084	30,654	165,150	(1,227,232)	1,264,727
Issue of consideration shares for the acquisition of subsidiaries	146,389	–	–	–	–	146,389
Issue of shares upon conversion of convertible bonds	227,584	–	–	(56,733)	–	170,851
Hair cut during the year due to profit guarantee shortfall	–	–	–	(48,925)	48,925	–
Equity-settled share-options arrangement	–	–	66,077	–	–	66,077
Issue of shares under share option scheme	148	–	(28)	–	–	120
Issue of convertible bonds	–	–	–	64,744	–	64,744
Share option lapsed	–	–	(538)	–	538	–
Issue of shares for remuneration	2,990	–	–	–	–	2,990
Total comprehensive income for the year	–	–	–	–	109,669	109,669
At 31 December 2015	2,285,182	388,084	96,165	124,236	(1,068,100)	1,825,567
Issue of shares upon conversion of convertible bonds	272,596	–	–	(96,481)	–	176,115
Hair cut during the year due to profit guarantee shortfall	–	–	–	(104,287)	–	(104,287)
Equity settled share-options arrangement	–	–	(1,200)	–	–	(1,200)
Issue of shares under share option scheme	1,980	–	25,054	–	–	27,034
Issue of convertible bonds	–	–	–	78,205	–	78,205
Share option lapsed	–	–	(18,000)	–	18,000	–
Transfer to other payable on maturity	–	–	–	(1,673)	1,673	–
Total comprehensive expense for the year	–	–	–	–	(1,461,452)	(1,461,452)
At 31 December 2016	2,559,758	388,084	102,019	–	(2,509,879)	539,982

* **Contributed surplus**

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

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

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33. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

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

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

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

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

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

On 24 April 2015, the number of shares in respect of which options had been granted to directors, eligible persons and consultants under the New Scheme was 276,600,000, representing 8.15% of the shares of the Company in issue at that date.

On 26 July 2016, the number of shares in respect of which options had been granted to directors, eligible persons and consultants under the New Scheme was 340,000,000 respecting 7.00% of the Shares of the Company in issue at that date.

The options outstanding at 31 December 2016 had exercise prices ranging from HK$0.132 to HK$0.785 (31 December 2015: HK$0.485 to HK$33.19) and a weighted average remaining contractual life of 9.22 years (31 December 2014: 9.00 years).

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

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

The following tables summaries the movements in the Company's share options during the period ended 31 December 2016

New Scheme	Grant date	At 1 Jan 2016	Granted during the year	Exercised during the year	Lapsed during the year	At 31 Dec 2016	Exercise period	Exercise price HK$
Executive director & CEO								
– Dr. Kaneko Hiroshi	3.7.2014	8,000,000	–	–	(8,000,000)	–	3.7.2014 – 2.7.2024	0.485
	24.4.2015	10,000,000	–	–	(10,000,000)	–	24.4.2015 – 23.4.2025	0.78
Executive directors								
– Mr. Li Zhixiong	24.4.2015	6,000,000	–	–	–	6,000,000	24.4.2015 – 23.4.2025	0.78
– Mr. Fu Zhenjun	3.7.2014	20,000,000	–	–	–	20,000,000	3.7.2014 – 2.7.2024	0.485
	24.4.2015	8,000,000	–	–	–	8,000,000	24.4.2015 – 23.4.2025	0.78
	26.7.2016	–	20,000,000	–	–	20,000,000	26.7.2016 – 25.7.2026	0.133
– Mr. Kuang yuanwei	3.7.2014	20,000,000	–	–	–	20,000,000	3.7.2014 – 2.7.2024	0.485
	24.4.2015	6,000,000	–	–	–	6,000,000	24.4.2015 – 23.4.2025	0.78
	26.7.2016	–	20,000,000	–	–	20,000,000	26.7.2016 – 25.7.2026	0.133
Non-executive directors								
– Mr. Li Dikang	26.7.2016	–	3,000,000	–	–	3,000,000	26.7.2016 – 25.7.2026	0.133
Independent Non-executive directors								
– Mr. Yu Bingguang	26.7.2016	–	3,000,000	–	–	3,000,000	26.7.2016 – 25.7.2026	0.133
– Mr. Loke Yu	26.7.2016	–	3,000,000	–	–	3,000,000	26.7.2016 – 25.7.2026	0.133
– Mr. Lin Xuebin	26.7.2016	–	3,000,000	–	–	3,000,000	26.7.2016 – 25.7.2026	0.133
		78,000,000	52,000,000	–	(18,000,000)	112,000,000		
Other eligible employees	3.7.2014	142,700,000	–	–	–	142,700,000	3.7.2014 – 2.7.2024	0.485
	24.4.2015	127,600,000	–	–	–	127,600,000	24.4.2015 – 23.4.2025	0.78
	26.7.2016		273,000,000	–	–	273,000,000	26.7.2016 – 25.7.2026	0.133
Consultants	3.7.2014	20,000,000	–	–	–	20,000,000	3.7.2014 – 2.7.2024	0.485
	24.4.2015	18,000,000	–	–	–	18,000,000	24.4.2015 – 23.4.2025	0.78
	24.4.2015	100,000,000	–	–	–	100,000,000	24.4.2018 – 23.4.2025	0.78
	26.7.2016	–	15,000,000	(15,000,000)	–	–	26.7.2016 – 25.7.2026	0.133
		486,300,000	340,000,000	(15,000,000)	(18,000,000)	793,300,000		
Weighted average exercise price (HK$)		0.65	0.13	0.13	0.65	0.44		

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

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

The following tables summaries the movements in the Company's share options during the period ended 31 December 2015

New Scheme	Grant date	At 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2015	Exercise period	Exercise price per share *HK$*
Executive director and CEO								
Dr. Kaneko Hiroshi	3.7.2014	8,000,000	–	–	–	8,000,000	3.7.2014-2.7.2024	0.485
	24.4.2015	–	10,000,000	–	–	10,000,000	24.4.2015-23.4.2025	0.78
Executive directors								
Mr. Li Zhixiong	24.4.2015	–	6,000,000	–	–	6,000,000	24.4.2015-23.4.2025	0.78
Mr. Fu Zhenjun	3.7.2014	20,000,000	–	–	–	20,000,000	3.7.2014-2.7.2024	0.485
	24.4.2015	–	8,000,000	–	–	8,000,000	24.4.2015-23.4.2025	0.78
Mr. Kuang Yuanwei	3.7.2014	20,000,000	–	–	–	20,000,000	3.7.2014-2.7.2024	0.485
	24.4.2015	–	6,000,000	–	–	6,000,000	24.4.2015-23.4.2025	0.78
		48,000,000	30,000,000	–	–	78,000,000		
Other eligible employees	3.7.2014	145,200,000	–	(250,000)	(2,250,000)	142,700,000	3.7.2014-2.7.2024	0.485
	24.4.2015	–	128,600,000	–	(1,000,000)	127,600,000	24.4.2015-23.4.2025	0.78
Consultants	3.7.2014	20,000,000	–	–	–	20,000,000	3.7.2014-2.7.2024	0.485
	24.4.2015	–	18,000,000	–	–	18,000,000	24.4.2015-23.4.2025	0.78
	24.4.2015	–	100,000,000	–	–	100,000,000	24.4.2018-23.4.2025	0.78
		213,200,000	276,600,000	(250,000)	(3,250,000)	486,300,000		
Weighted average exercise price (HK$)		0.49	0.78	0.49	0.58	0.65		

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

New Scheme

Employee share option expenses related to the New Scheme were valued at approximately HK$35,854,000 (2015: HK$66,077,000) and are charged to the consolidated statement of profit or loss. The fair value of the share options granted is measured based on the binomial option pricing model with the following assumptions:

	26 July 2016	24 April 2015	3 July 2014
Value per option	$0.071-$0.084	$0.285-$0.514	$0.113-$0.225
Price per share at date of grant	$0.133	$0.88	$0.480
Exercise price per share	$0.133	$0.78	$0.485
Annual risk-free interest rate	0.94%	1.626%	2.08%
Expected volatility	65.28%	56.34%	49.05%
Life of options	10 years	10 years	10 years
Vesting period	0 year	0 to 3 years	0 year

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

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

At the end of the reporting period, the Company had 793,300,000 share options outstanding under the New Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 793,300,000 additional ordinary shares of the Company and additional share capital of approximately HK$793,300.

Up to the date of approval of these consolidated financial statements, 15,000,000 share option have been exercised under the New Scheme.

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

Old Scheme

The following tables summaries the movements in the Company's share options during the year ended 31 December 2016 *(continued)*

Old Scheme	Grant date	At 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2016	Exercise period	Exercise price per share *HK$*
Other eligible employees	26.9.2006	–	–	–	–	–	26.9.2010-25.9.2016	4.66 (note 1)
	11.6.2008	–	–	–	–	–	11.6.2012-10.6.2018	33.19 (note 2)
		–	–	–	–	–		
Weighted average exercise price (HK$)		–	–	–	–	–		

The following tables summaries the movements in the Company's share options during the year ended 31 December 2015

Old Scheme	Grant date	At 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2015	Exercise period	Exercise price per share *HK$*
Other eligible employees	26.9.2006	144,714	–	–	(144,714)	–	26.9.2010-25.9.2016	4.66 (note 1)
	11.6.2008	115,833	–	–	(115,833)	–	11.6.2012-10.6.2018	33.19 (note 2)
		260,547	–	–	(260,547)	–		
Weighted average exercise price (HK$)		17.34	–	–	17.34	–		

Notes:

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

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

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

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

Old Scheme *(continued)*

No employee share option expenses of related to the Old Scheme are charged to the consolidated statement of profit or loss over the vesting period (2015: HK$Nil). The estimate of the fair value of the share options granted is measured based on the Black-Scholes Valuation model with the following assumptions:

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

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

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

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

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

34. BUSINESS COMBINATION

Acquisition of intangible assets through acquisition of subsidiaries

On 23 February 2015, the wholly-owned subsidiary, Excel Growth Investment Limited ("Excel Growth"), entered into an agreement with an independent third party (the "Vendor") for the acquisition of the entire issued share capital of China New Oriental Household Holdings Limited ("New Oriental") and its subsidiaries (the "New Oriental Group") at total of 540,000,000 consideration shares and the Promissory Note of HK$123,000,000. The first tranche of 229,090,909 consideration shares had been allotted and issued to the Vendor upon the completion of the sale and purchase of the shares of New Oriental Group. The second tranche of 125,000,000 consideration shares will be issued and delivered to the Vendor within 5 business days from the date of determining the net profits of the New Oriental Group for the financial year from 1 January 2015 to 31 December 2015. The third tranche of 150,000,000 consideration shares will be issued and delivered to the Vendor within 5 business days from the date of determining the net profits of the New Oriental Group for the financial year from 1 January 2016 to 31 December 2016. The fourth tranche of 35,909,091 consideration shares and the Promissory Note will be issued and delivered to the Vendor within 5 business days from the date of determining the net profits of the New Oriental Group for the financial year from 1 January 2017 to 31 December 2017.

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34. BUSINESS COMBINATION *(CONTINUED)*

Acquisition of intangible assets through acquisition of subsidiaries *(continued)*

Pursuant to the sales and purchase agreement, the profit guarantee for New Oriental Group's total net profit after tax shall not be less than HK$75,000,000, HK$100,000,000 and HK$120,000,000 for the years ended 31 December 2015, 2016 and 2017 respectively. If the net profit for any financial year is less than the guaranteed net profits indicated above, the balance of the consideration shares in respect of that period shall be reduced on a pro rata basis and such consideration shares to be delivered to the Vendor for such financial year will be reduced accordingly. The fair value of the profit guarantees of New Oriental Group was HK$2,435,000 at the date of acquisition based on valuation performed by an independent professional valuer, by using a probabilistic model.

New Oriental is a limited liability company incorporated in the British Virgin Islands. New Oriental Group is principally engaged in investment holding in the People's Republic of China and did not carry out any significant business transactions on acquisition date. In the opinion of the directors, the acquisition did not constitute an acquisition of business in substance. The acquisition of the intangible assets were then considered as acquisition of assets through acquisition of subsidiaries. Therefore, the acquisition was not accounted for as a business combination in accordance with HKFRS 3 – Business Combination. The acquisition of New Oriental Group was completed on 30 March 2015.

Identifiable assets acquired and liabilities assumed arising as at the respective date of acquisition are as follows:

	HK$'000
Intangible assets	**404,056**
Other payable	**(41)**
	404,015
Total purchase consideration	
Promissory notes	**66,517**
Consideration shares	**146,618**
Contingent consideration shares	**193,315**
Other financial assets	**(2,435)**
	404,015
Net cash flows arising on acquisition:	
Cash and cash equivalents in subsidiaries acquired	**–**

34. BUSINESS COMBINATION *(CONTINUED)*

Disposals of subsidiaries during the year ended 31 December 2015

During the year ended 31 December 2015, the Group disposed of the entire equity interests of nine subsidiaries of the Group through sale to independent third parties for the consideration of HK$10,000. All these subsidiaries were engaged in sale of garment and accessories in Hong Kong and to overseas.

The cash flows and the carrying amounts of net assets and liabilities of the subsidiaries disposed of at the date of disposal were as follows:

	Amounts *HK$'000*
Property, plant and equipment	1,171
Equity investment at fair value through profit or loss	4,441
Trade receivables	547
Other receivables	2
Cash and cash equivalents	1,552
Bank overdrafts, secured	(2,308)
Bank loans, secured	(990)
Trade payables	(13)
Other payables and accrued charges	(397)
Amount due to related company	(9,040)
Taxation payable	(1,618)
Net liabilities disposed of	(6,653)
Non-controlling interests	3,604
	(3,049)
Less: Consideration of disposals	(10)
Gain on disposal of subsidiaries, net	(3,059)
Cash consideration received	10
Cash and cash equivalents disposed of	(756)
Net cash outflow arising on disposals	746

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34. BUSINESS COMBINATION *(CONTINUED)*

Disposals of subsidiaries during the year ended 31 December 2015

During the year ended 31 December 2015, the Group disposed of the entire equity interests of two subsidiaries of the Group to independent third parties without any consideration. The two subsidiaries sold were Talent Grand Investment Limited and Ocean Yield International Limited. All these subsidiaries were engaged in provision of loan financing.

The cash flows and the carrying amount of assets of the subsidiaries disposed of at the date of disposals were as follows:

	2015
	HK$'000
Property, plant and equipment	58
Other receivables	28
Cash and cash equivalents	8
Loan receivables	332
Loan interest receivables	2
Net assets disposed of	428
	428
Less: Consideration of disposals	–
Loss on disposals of subsidiaries, net	428
Cash consideration received	–
Cash and cash equivalents disposed of	(8)
Net cash outflow arising on disposal	(8)

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35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Save as transactions disclosed in notes 28, 29, 30, 33 and 34 to the consolidated financial statements, the Group had no other major non-cash transactions during the years ended 31 December 2016 and 2015.

36. COMMITMENTS

(a) Operating lease commitments

As lessee

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

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

	2016	2015
	HK$'000	*HK$'000*
Within one year	**8,408**	9,422
In the second to fifth years inclusive	**–**	8,599
	8,408	18,021

(b) Capital commitments

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

	2016	2015
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Injection of capital	**–**	46,358
Authorised, but not contracted for:		
Construction cost for the mining infrastructure	**559,442**	598,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

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

Revenue/income from related parties:

Name of related parties	Nature	*Notes*	**2016** **HK$'000**	2015 HK$'000
中山市金島木業制品有限公司 (Zhongshan Jindao Wood products Co., Ltd.* ("Jindao"))	Sales of goods to a related company	*(i)*	**10,828**	–
purchases/expenses paid to related parties:				
Ching Hing Weaving Dyeing and Printing Factory Limited	Management expenses paid/ payable to a related company	*(ii)*	**–**	720
Jindao	Rental expenses paid to a related company	*(i)*	**7,100**	8,824
中山嘉冠實業有限公司 (Zhongshan Jiaguan Industrial Co., Ltd.* ("Jiaguan"))	Rental expenses paid to a related company		**1,866**	–
Total			**8,966**	9,544

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

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

(a) *(continued)*

Notes:

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

On 31 December 2014, the Company, as tenant, have entered into tenancy agreement with Jindao (the "Tenancy Agreement"), as landlord, for the leasing of premises for terms of three years commencing from 1 January 2015 and expiring on 31 December 2017 respectively. Details of the Tenancy Agreement can be found in the circular of the Company dated 31 December 2014.

Such transactions carried out by the Company with Jindao were in accordance with the terms of the Tenancy Agreement.

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

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

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

(b) During the year, the key management personnel includes four executive directors (2015: four) and one non executive directors (2015: three). The details of directors' emoluments are included in note 8 to the consolidated financial statements.

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38. STATEMENT OF FINANCIAL POSITION

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**6**	9
Investments in subsidiaries		**208,329**	966,429
Total non-current assets		**208,335**	966,438
CURRENT ASSETS			
Amounts due from subsidiaries		**940,514**	1,857,007
Prepayments, deposits and other receivables		**55,214**	44,234
Cash and cash equivalents		**2,874**	1,005
Total current assets		**998,602**	1,902,246
CURRENT LIABILITIES			
Other payables and accruals		**126,827**	25,714
Strict bonds		**131,163**	66,500
Convertible bonds		**–**	307,322
Promissory notes		**1,666**	37,873
Total current liabilities		**259,656**	437,409
NET CURRENT ASSETS		**738,946**	1,464,837
TOTAL ASSETS LESS CURRENT LIABILITIES		**947,281**	2,431,275
NON-CURRENT LIABILITIES			
Strict bonds		**380,052**	357,677
Convertible bonds		**–**	75,063
Promissory notes		**–**	147,471
Total non-current liabilities		**380,052**	580,211
NET ASSETS		**567,229**	1,851,064

38. STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

	Notes	2016 HK$'000	2015 HK$'000
EQUITY			
Issued capital	33	**5,829**	4,079
Equity component of convertible bonds	31	**–**	124,236
Reserves	34(b)	**539,982**	1,701,331
		545,811	1,829,646
Shares to be issued		**21,418**	21,418
TOTAL EQUITY		**567,229**	1,851,064

Kuang Yuanwei
Director

Li Zhixiong
Director

The consolidated loss attributable to owners of the Company for the year ended 31 December 2016 includes a loss of approximately HK$1,461,452,000 (2015: Income of HK$109,699,000) which has been dealt with in the financial statements of the Company.

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39. 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:

31 December 2016
Financial assets

	Financial assets at fair value through profit or loss *HK$'000*	Loans and receivables *HK$'000*	Total *HK$'000*
Other financial assets	179	–	179
Trade and bills receivables	–	164,915	164,915
Financial assets included in other receivables and advance to supplies	–	313,550	313,550
Equity investment at fair value through profit or loss	1,106	–	1,106
Cash and cash equivalents	–	563,429	563,429
	1,285	1,041,894	1,043,179

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Bank loans, secured	52,930
Trade payables	103,552
Financial liabilities included in other payables and accruals	210,783
Obligation under finance leases	349
Strict bonds	511,215
Liabilities component of convertible bonds	–
Promissory notes	1,666
	880,495

39. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

31 December 2015
Financial assets

	Financial assets at fair value through profit or loss *HK$'000*	Loans and receivables *HK$'000*	Total *HK$'000*
Other financial assets	361,495	–	361,495
Trade and bills receivables	–	163,304	163,304
Financial assets included in other receivables and advance to supplies	–	516,336	516,336
Equity investment at fair value through profit or loss	4,383	–	4,383
Cash and cash equivalents	–	408,872	408,872
	365,878	1,088,512	1,454,390

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Bank loans, secured	56,720
Trade payables	36,117
Financial liabilities included in other payables and accruals	205,609
Obligation under finance leases	496
Strict bonds	424,177
Liabilities component of convertible bonds	382,385
Promissory notes	186,960
	1,292,464

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40. FAIR VALUE MEASUREMENT

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 31 December 2015 and 2016. across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

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

Assets measured at fair value

As at 31 December 2016

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Equity investments at fair value through profit or loss	**1,106**	**–**	**–**	**1,106**
Other financial assets:	**–**	**–**	**–**	**–**
Profit guarantee	**–**	**–**	**179**	**179**
	1,106	**–**	**179**	**1,285**

As at 31 December 2015

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments at fair value through profit or loss	4,383	–	–	4,383
Other financial assets:				
Profit guarantee	–	–	361,495	361,495
	4,383	–	361,495	365,878

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

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The Group's policy is to recognise transfers into and out of Level 3 as at the end of the reporting date.

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40. FAIR VALUE MEASUREMENT *(CONTINUED)*

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**361,495**	253,919
Additions through acquisition of assets	**–**	2,435
Adjustment of principal amount of convertible bonds	**–**	(132,770)
Fair value changes	**(361,316)**	237,911
At 31 December	**179**	361,495

Description of the valuation techniques in Level 2 fair value measurement

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

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

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

If the actual performance was 10% higher/lower than the respective expected performance, the fair value of other financial assets would have been decreased/increased by approximately HK$1,005,000 (2015: HK$81,000,000) and HK$1,363,000 (2015: HK$114,000,000) respectively with the corresponding loss/gain recognised in other losses.

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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40. FAIR VALUE MEASUREMENT *(CONTINUED)*

Description of the valuation techniques and inputs used in Level 3 fair value measurement *(continued)*

Fair value measurements and valuation processes

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

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

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

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

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

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

Sensitivity analysis

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

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

Foreign currency risk

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

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

Exposure to currency risk

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

	2016		2015	
	RMB'000	***USD'000***	*RMB'000*	*USD'000*
Cash and cash equivalents	**548,683**	**72**	407,196	74,477
Trade and other receivables	**345,386**	**–**	629,390	–
Trade payables	**–**	**(6,280)**	–	(6,280)
Overall net exposure	**894,069**	**(6,208)**	1,036,586	68,197

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

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

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

Credit risk

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

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

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

(i) Trade and bills receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group had certain concentration risk as 12% (2015: 15%) and 59% (2015: 54%) of the total trade and bill receivables were due from the Group's largest customer and the five largest customers, respectively.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bill receivables are set out in note 21.

(ii) Deposits with financial institutions

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

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

Liquidity risk

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

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

	On demand or no fixed terms of repayment	Less than 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2016							
Bank loans, secured	**57,735**	**–**	**–**	**–**	**–**	**57,735**	**52,930**
Trade payables	**–**	**51,437**	**52,115**	**–**	**–**	**103,552**	**103,552**
Other payables and accruals	**210,783**	**–**	**–**	**39,941**	**–**	**250,724**	**250,724**
Promissory notes	**–**	**–**	**3,160**	**–**	**–**	**3,160**	**1,666**
Strict bonds	**–**	**–**	**143,771**	**302,778**	**130,562**	**577,111**	**511,215**
Obligation under finance leases	**–**	**46**	**139**	**184**	**–**	**369**	**349**
	268,518	**51,483**	**199,185**	**342,903**	**130,562**	**992,651**	**920,436**
2015							
Bank loans, secured	60,826	–	–	–	–	60,826	56,720
Trade payables	–	20,810	15,307	–	–	36,117	36,117
Other payables and accruals	205,609	–	–	141,583	–	347,192	347,192
Convertible bonds	–	–	317,325	75,063	–	392,388	382,385
Promissory notes	–	–	40,273	164,208	–	204,481	186,960
Strict bonds	–	–	72,946	120,514	257,162	450,622	424,177
Obligation under finance leases	–	46	139	369	–	554	496
	266,435	20,856	445,990	501,737	257,162	1,492,180	1,434,047

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as equity investments at fair value through profit or loss as at 31 December 2016. The Group's listed investments are listed in Hong Kong and are valued at quoted market prices at the end of the reporting period.

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

	Carrying amount of equity investments *HK$'000*	Change in the Group's loss before tax *HK$'000*	Change in the Group's equity* *HK$'000*
2016			
Investments listed in:			
Hong Kong – equity investments at fair value through profit or loss	**1,106**	**55**	**–**

	Carrying amount of equity investments *HK$'000*	Change in the Group's loss before tax *HK$'000*	Change in the Group's equity* *HK$'000*
2015			
Investments listed in:			
Hong Kong – equity investments at fair value through profit or loss	4,383	219	–

* Excluding accumulated losses

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

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

Capital management *(continued)*

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

	2016 **HK$'000**	2015 HK$'000
The gearing ratios as at the end of reporting periods were as follows:		
Bank loans, secured	**52,930**	56,720
Trade payables	**103,552**	36,117
Other payables and accruals	**250,724**	205,609
Strict bonds	**511,215**	424,177
Promissory notes	**1,666**	186,960
Liability component of convertible bonds	**–**	382,385
Less:		
Cash and cash equivalents	**(563,429)**	(408,872)
Net debt	**356,658**	883,096
Equity attributable to owners of the Company	**683,503**	897,677
Total capital	**683,503**	897,677
Total capital and net debt	**1,040,161**	1,780,773
Gearing ratio	**34%**	50%

42. DIVIDENDS

The directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2016 (2015: Nil).

43. COMPARATIVE AMOUNTS

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

44. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2017.

FIVE YEAR SUMMARY

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

	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Revenue	**872,351**	1,152,101	1,662,093	943,457	17,286
(Loss)/profit before tax	**(300,045)**	(1,036,678)	(707,943)	225,838	(19,241)
Income tax expense	**(41,564)**	(51,274)	(153,172)	(71,677)	(749)
(Loss)/profit for the year	**(341,609)**	(1,087,952)	(861,115)	154,161	(19,990)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**1,651,923**	2,387,697	2,930,969	3,140,554	2,000,164
Total liabilities	**(946,196)**	(1,467,715)	(1,336,655)	(953,286)	(333,428)
Shares to be issued	**(21,418)**	(21,418)	(21,418)	(21,418)	(21,418)
Non-controlling interests	**807**	887	(1,746)	10,328	5,200