Bolina Holding Co., Ltd.

航標控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1190

ANNUAL REPORT

2016

ECO • FUTURE • HUMAN NATURE

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Zheng Zhihong *(Chairman and CEO)*
Mr. Yang Qingyun
Mr. Zhang Ming
Ms. Sun Yumei
Mr. Lam Ying Choi, Donny

Independent Non-executive Directors

Mr. Jiang Guoxiang
Mr. Zhang Shujun
Ms. Kwok Wai Ling

Audit Committee

Mr. Jiang Guoxiang *(Chairman)*
Mr. Zhang Shujun
Ms. Kwok Wai Ling

Remuneration Committee

Mr. Zhang Shujun *(Chairman)*
Mr. Jiang Guoxiang
Ms. Kwok Wai Ling

Nomination Committee

Mr. Zheng Zhihong *(Chairman)*
Mr. Jiang Guoxiang
Mr. Zhang Shujun

Company Secretary

Mr. Chak Chi Shing

Auditors

Elite Partners CPA Limited

Legal Advisor

Herbert Smith Freehills

Head Office and Principal Place of Business in PRC

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

Place of Business in Hong Kong

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Causeway Bay, Hong Kong

Registered Office

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Grand Cayman, KY1-1108
Cayman Islands

Principal Share Registrar

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

Branch Share Registrar

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

Stock Code

The Stock Exchange of Hong Kong Limited: 1190

Company Website

www.bolina.cc

Financial Highlights

	2016 RMB'000	2015 RMB'000	% change
Revenue	**359,977**	716,039	-49.7%
Gross profit	**95,456**	285,492	-66.6%
(Loss)/Profit for the year attributable to owners of the company	**(349,601)**	74,087	-571.9%
(Loss)/Earnings per share attributable to ordinary equity holders of the company	**RMB(0.35)**	RMB0.07	-585.7%
Gross profit margin	**26.5%**	39.9%	

	31 December 2016 RMB'000	31 December 2015 RMB'000	
Total assets	**1,429,529**	2,296,236	-37.7%
Net current assets	**771,605**	235,112	228.2%
Net assets	**703,965**	1,102,987	-36.2%
Cash and cash equivalents	**520,146**	909,894	-42.8%
Debt-to-Equity ratio	**67.5%**	53.3%	
Current ratio	**2.74**	1.24	

Bolina's Production Plants

Bolina

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

Chairman's Statement

On behalf of the board of directors (the "Board") of Bolina Holding Co., Ltd. (the "Company" or "Bolina", and together with its subsidiaries, the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2016.

Financial Results and Dividends

For the year ended 31 December 2016, the Group's revenue amounted to RMB360.0 million, down by 49.7% as compared with last year; net loss for the year amounted to RMB349.6 million, with a net profit of RMB72.3 million recorded for 2015; the basic loss per share was RMB35 cents, while the earnings per share recorded for the previous year was RMB7 cents.

With China's economic growth continuing to slow down and the external pressure of the industry still high, since its listing, the Group recorded the first annual net loss; due to the complex and volatile international situation thereby making it difficult to be optimistic, demands from third and fourth tier cities continued to be weak leading to persistent inventory pressure, brand competition within the industry still fierce resulting in a continued downward trend of the prices, the Group expects a challenging operating environment continuing into 2017; however, through the Group's reintegration of the distribution network and providing subsidies and support to distributors in key provinces and cities with excellent brand operation ability, as well as active promotion for the number of sales outlets to return to positive growth, the Group believes that 2017 could be the turning point. Notwithstanding that the

Chairman's Statement

Group has maintained very stable financial position since listing and did sustain stable dividend policy in the past, the Board resolved to continue last year's dividend policy, to not distribute a final dividend for the year ended 31 December 2016 in view of the threats and opportunities ahead in 2017. Slowdown of China's economy is on one hand threatening demand for sanitary ware products that impacts businesses of the entire industry but is on the other hand opportunity for significant market players, like Bolina, to acquire and take over players, either vertically or horizontally in the industry chain, who failed to compete for survival under this economic crisis. As such the Board decided to reserve more financial resources to cope with the probable changes in future.

Development of Sanitary Ware Business

Products and product lines – As a leading domestic integrated sanitary ware enterprise, Bolina has always been committed to providing consumers with comprehensive bathroom solutions, so that every family can enjoy premium sanitary ware with unique style. The Bolina sanitary ware series products include thousands of models in ceramic sanitary ware, bathroom furniture, bathtubs, showers, metal faucets and bathroom accessories. Of which, our production technology of toilets, wash basins and other ceramic sanitary ware products has long held a leading position in China. To date, Bolina's ceramic sanitary ware products have continued to thrive, adhering to the core functional philosophy of cleanliness and energy saving, and they are trusted by domestic and foreign consumers alike. The Bolina brand has been established the Chinese market for over twenty years, with its corporate strength and brand influence gradually increasing, winning "top ten brands in sanitary ware", "China's top ten sanitary ware leaders" and other rewards year after year. Meanwhile, Bolina also continued to steadily expand its own product line and constantly perfect its product architecture. At present, the production base for Bolina's sanitary ware products has six automatic tunnel kiln production lines that have a wide cross-section and over 100 meters long, and its annual output of close to 6 million ceramic sanitary ware puts it at the forefront in China.

Chairman's Statement

Overseas export – Overseas the Group's success in business development was based on accumulation of technology competence by providing high quality products through the ODM and OEM services to international brands. With first-hand access to the latest industry information on products, technology and market trend, thereby enabling us to maintain a competitive advantage over many of our competitors. The stability of sales orders from international brands has provided a buffer from the unstable domestic sales, even though customs import and export statistics show that the trend of rapid growth in export of ceramic sanitary products over the years has ended, with the double decline in export volume and export value for the first time, the buffering effect from the fast recovery of the US economy and its real estate market is even more obvious. For the year ended 31 December 2016, the revenue from America's market amounted to RMB251.6 million, representing 69.9% of the total revenue.

Local brand operations – Leveraging on our successful experience in ODM and OEM businesses, we put in more effort to develop Bolina brand and retail strategy since 2008. Sanitary ware market in China is very fragmented, with low market share by each player, therefore the Group set up different distributors and points of sale throughout China, aiming at capturing more market share in different regions. As of 31 December 2016, the Group established 96 distributors and 485 points of sales. Meanwhile, the Group has set up three branches in Tianjin, Foshan and Xi'an, to provide better support and supervision to the distributors nearby. The branches also have their warehouse to provide product source for the distributors and the points of sales nearby, which largely reduced their transportation costs and facilitated business operations.

Real estate developers direct sales business – Apart from relying on distributors to develop retail and local projects, the Group also established relationship with several national property developers, including Gemdale, Wanda Group and Fusheng Group etc.; with years of hard work in the real estate sector, the Group has successfully ranked among the top 15 brands in the real estate market. Although new buildings in China are still dominated by "unfurnished flats", we expect the proportion of furnished new flats will gradually increase especially in more developed regions.

Online trading platform development – On top of traditional sales channels, the Group endeavors to establish sales channels through e-commerce platforms, including Tmall, Gome, JD.com, Suning and Amazon to promote and sell Bolina's own branded products. In 2016, the Group furthered its in-depth internet deployment, strengthened its push in a joint online-offline marketing model. Our leading smart toilet Clean Bathroom series products have shown a strong competitive edge and attractiveness in many brand-alliance promotions and "time limited offers", where they were often sold out in advance. At present, the Group has established official online flagship stores at large-scale online trading platforms such as Tmall and JD.com, as well as established a strong alliance with Amazon, Suning, Tesco, Gome Online and Taobao, providing a diversified, convenient, and high-quality purchase experience to online shoppers.

In addition, in 2017, the Group innovated with a new O2O retail model; this is yet another strategic move from Bolina to deepen its online shopping philosophy ever since the group has officially opened its official flagship store on Tmall. O2O refers to Online to Offline, which utilizes an online platform to provide consumer guides, products and offer information, convenience services (booking, online payment, maps, etc.) and sharing platform to consumers, as well as extensively linking Bolina stores of levels to provide integrated and one-stop online-offline services.

Chairman's Statement

Policy trends – During the past few years, the government implemented a series of controlling measures to regulate the property market and the prices which led to the recent downturn of the sanitary ware market. Also, the slowdown of China's economic growth during the year was much faster than expected. Even though there happened to be some fleximeasures since 2015 to stimulate housing demand in third-tier and fourth-tier cities, market sentiment became pessimistic for the past two years while consumer spending remained persistently weak, which are all factors that have rather major impacts on the sales revenue of the Group's own branded products. During the annual plenary sessions, the trends in real estate policy continue to be the focus of the market, with the tone of the policy continuing to maintain classification control as well as the city-based policy. The Ministry of Housing and Construction has indicated that, this year, it will continue in accordance with the structural reform requirements of the supply side, and unwaveringly work on clearing the real estate inventory of the counties as well as third and fourth tier cities.

Looking at all the factors above, although the domestic economic slowdown has resulted in a short-to-medium-term negative impact on the bathroom industry at present, the Group believes that for the long-term, due to gradually improving economic growth, the effective implementation of the various city-based control policies and inventory measures, as well as the orderly improvement of urbanization, these factors will continue to drive the orderly development of the health of the domestic real estate market as a whole (and in particular for the third and fourth tier cities), thereby stimulating the sustainable development of the bathroom industry.

Strategic Development

To further integrate the Group's business and to focus resources on the development of the Group's competitive sanitary ware business as well as the development of the smart-home domain, the Group has sold its 70% equity interests in Fujian Yudeyuan Property Co., Ltd. ("Yudeyuan") in mid-2016 for a cash consideration of RMB285 million, which includes a sale loan of RMB115 million. This project is a large shopping plaza in Changtai County, Zhangzhou; due to the longer real estate developmental period, also because this is not the Group's expertise, and in addition, the Group expects the real estate market of the third and fourth tier cities to remain weak for the next few years, therefore it has made this sale decision to more effectively utilize its financial resources to deal with the challenges stemming from future opportunities in the bathroom industry.

While maintaining a stable leading position in the bathroom industry, the Group has always been committed to exploring new markets. Originally, the Group entered into a Sale and Purchase Agreement with the shareholders of Xiamen Mas-Agee Electronic Technology Co., Ltd. ("Mas-Agee") to acquire 51% equity interest in Mas-Agee for a consideration of RMB71 million. Mas-Agee is mainly engaged in the development, production and sales of massage chairs and massage equipment, with its products exporting to Japan, Taiwan, the United States, Canada, South Korea, Argentina, Brazil, Australia and even Serbia; it also holds over 40 patents (including several invention patents), and in addition it has strong R&D capabilities. The Group is committed to use Mas-Agee's strength in R&D to support the development of smart home products and

Chairman's Statement

solutions, while relying on the Group's rich management experience, excellent marketing strategy and a broad sales network to develop an even broader sales potential for Mas-Agee; without deviating from the Group's original home appliances and supplies domain, it is also able to realize an expansion into the health care products market in the medical and health care industry, thereby providing more space for the Group's development. As the prerequisites for the transaction have not yet been met, the completion of the transaction needs to be further determined.

Advantages in Zhangzhou

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

Outlook

2017 is the starting year of the thirteenth five-year plan, it is also the starting year and decisive stage for the country to achieve a comprehensive well-off society. It is predicted that future central government policies will continue to implement supply-side reforms to improve overcapacity, moderately expand aggregate demand, and improve its domestic economic structure optimization efforts to ensure that fundamental issues of economic structure are addressed. It is full of crises behind these reforms, therefore the Group predicts that its future developmental path will also be challenging, however we are committed to turning these crises and challenges into opportunities, thereby creating the greatest benefits for the Group's shareholders.

Regarding the policy for the development of the real estate market, the central government will adhere to the classification control and city-based policy, vigorously support the needs of residents to purchase their own homes, curb speculative buyers, and effectively handle the anti-bubble and anti-risk prevention. In addition, it will continue in accordance with the structural reform requirements of the supply side, and unwaveringly work on clearing the real estate inventory of the counties as well as third and fourth tier cities; this Group believes that this series of measures will continue to be implemented in the next few years to ensure that the nation's real estate industry will development healthily. According to the

Chairman's Statement

New Urbanization Plan (2014 – 2020) released in March 2014, the national development goal is to promote the urbanization of farmers and to optimize the urbanization deployment and format, thereby improving urban sustainable development capacity, with the urbanization rate of the resident population reaching approximately 60%. At the same time, the *Thirteenth Five Year Plan Out of Poverty Planning* aims to build a financial, investment, finance, land, cadres, "five-in-one" support policy, requiring financial, investment, and banking funds to further lean into impoverished areas and impoverished demographics, which are expected to benefit from the positive public and social policies mentioned above; even though the current operating environment is difficult, the Group is still confident in the long-term development potential of China's sanitary ware market.

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

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

BOLINA's New Concepts:

ECO-FRIENDLY FUTURE PEOPLE-CENTRIC

More

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

Management Discussion and Analysis

The economy of China has entered into the state of New Normal. Growth rate of which has been evolving from the stage of rapid to relatively high pace, with new momentum and optimized structure. In other words, the characteristics of the New Normal were more remarkable in 2016. According to statistics of the National Bureau of Statistics, China's GDP was RMB74,412.7 billion in 2016, representing 6.7% growth over the previous year. Growth was slower than the previous year but still remains within the target range of control. Internationally, the global economy was still in the stage of intensified adjustments, deglobalization emerged, growth of world trade was slow with severe volatility in the international financial market; domestically, the economy has entered into the state of New Normal with challenging tasks of reform and development ahead. In face of such situations, China appropriately expanded demand by insisting on supply-side structural reform; balanced economic operation was maintained with better quality of economic growth, stable employment and moderate increases in prices.

Macro-economic operation in China was stable, but the international scenario was relatively complicated, unstable and uncertain. With conflicts between excessive production capacity and demand structural upgrading, endogenous momentum for economic growth was insufficient with the risk of economic downturn lingering. Facing continuously low and fluctuating demand, the construction materials and sanitary ware products still faced high external pressure with relatively high risks of market slip. In the last several years, a series of macro-control measures on the housing market and housing prices introduced by the government gave rise to depression and plight of the sectors. Income from sales of the Group's own branded business also faced serious challenges. In 2016, the Group's ODM and OEM export businesses, which used to be relatively stable, also faced serious challenges. According to analysis of the National Bureau of Statistics, the driver for export volume of construction materials had weakened, with falls recorded in 2016 in the export volumes of sanitary ceramics and construction stones, which represent nearly one half of the construction materials export. Analysis states that export volumes of sanitary ceramics and construction stones had reached the limit; challenging operating environment is expected to continue.

Business Review

In 2016, the Group's revenue reached RMB360.0 million, decreased by 49.7% as compared with last year; and loss attributable to ordinary equity holders of the Company was RMB349.6 million compared to a profit of RMB74.1 million in 2015.

Sales Volume

For the year ended 31 December 2016, the Group's sales volume was approximately 2.6 million units. The Group is one of the largest domestic ceramic sanitary ware brands in China's mid-to-high end ceramic sanitary ware market in terms of retail sales.

Production

The Group manufactures ceramic sanitary ware products at its production facilities in Zhangzhou, Fujian Province, the PRC. The Group's annual designed production capacity was 4.9 million units for the year ended 31 December 2016 with 5 production lines, which is one of the largest manufacturers of ceramic sanitary products in the PRC in terms of designed production capacity.

Management Discussion and Analysis

Business Review (continued)

Distribution Network

The market of sanitary ware products in China is fragmented with low market share represented by every single major participant. In view of this, the Group's own branded business in China was mainly carried out through third party distributor model and continued to improve operation capacity and quality of the distribution network, to standardise distribution network governance, to promote differentiated operation innovation, to improve the quality of the network operation team and to optimise the existing network layout with the aim of enhancing sales performance and efficiency. The number of the Group's distribution networks has fallen in the face of increasingly keen competition of sanitary ware brands, weak fundamentals of distributors and excess capacity and inventory of the sanitary ware market. In order to invigorate terminal distributors in the regional market, consolidate the Group's status in the Chinese market and further pave way for explosive growth in the Chinese market in the coming years, the Group began to make efforts to assist distributors in key provinces and municipalities since 2016 for the purposes of enhancing distributors' operating capacity, intensify sales channels, re-establish shop image, step up brand promotion and consolidate brand advantage, etc. The Group's distribution network, comprising 96 distributors operating 485 points of sales as at 31 December 2016.

The Group has 3 branch offices in the form of subsidiaries including Tianjin, Foshan and Xi'an as at 31 December 2016, which is very important to promote the overall expansion strategy in domestic market. They provide supporting platforms for business development and service assurance, enable the Group to provide services and supports responding to the market more timely and efficiently for the regions close by the respective hubs.

Business Channel

In addition to the sales through distributors, the Group continued to promote restructuring and upgrading of real estate with premium quality and services. The Group had developed close strategic cooperative ties with a number of large real estate groups including the Gemdale Group and Vanke Group. Through years of efforts in the real estate area, the Group has successfully ranked among the top 15 first choice brands in the real estate works market. The Group anticipates the direct sale business will become a key revenue stream to the Group when furnished flats become more popular in the future.

Furthermore, the Group endeavours to establish sales channels through e-commerce platforms, including Tmall, Gome, JD.com, Suning and Amazon, to promote and sell Bolina's own branded products. In 2016, the Group stepped up promotion of online and offline sales models by further intensifying its Internet network. The "Clean · Sanitary" series led by smart toilet were always sold out early in brand alliance activities and the "timed seckill", demonstrating their strong competitiveness and attractiveness. Currently, the Group had established official online flagship stores on large online transaction platforms including the Tmall and JD.com. The Group joins hands with strong partners including the Amazon, Suning.com, Gome.com, and Taobao Juhuasuan to provide convenient and quality shopping experiences to online shoppers.

Brand Building

After the Group had become the first listed company in China's ceramic sanitary industry, Bolina was awarded as the Chinese Famous Brand, Top Ten Popular Brand in Sanitary Industry and Outstanding Enterprises, etc. – which have significantly increased Bolina's brand recognition. In 2017, the Group continued to strengthen the brand image of Bolina by reorganising the points of sales and through the appointment of celebrity as our brand ambassador. Furthermore, the direct sale business with national property developers, promotion and sales on e-commerce platforms and promotion of our own brand in overseas market will help to further increase brand awareness and promote the overall expansion strategy of Bolina in both domestic and overseas markets.

Management Discussion and Analysis

Business Review (continued)

Outlook

Macro-economic operation in China was stable as a whole, but the international scenario was relatively complicated, unstable and uncertain. With conflicts between excessive production capacity and demand structural upgrading, endogenous momentum for economic growth was insufficient with the risk of economic downturn lingering. During the annual meeting of two sessions, the market will continue to focus on housing policy direction. The Ministry of Housing and Urban-Rural Development will continue to properly eliminate excessive inventories in the third-tier and fourth-tier cities as requested by the Central Economic Working Meeting. Besides solving the excessive inventory problem for the third-tier and fourth-tier cities, control for key cities shall not be relaxed. Such measure is the continuation of last year's control fundamentals. As housing demand in the third-tier and fourth-tier cities is still weak, malignant competition continues in sanitary ware brands. Coupled with the fact that export volume of ceramic sanitary products had reached the limit and the complicated international situation, the Group's management believes that operating environment will continue to be challenging in 2017 but fortune will be at hand through re-integration of distribution networks, subsidization for distributors with good performance in key provinces and municipalities and active promotion of normal growth of sales network number.

As one of the strongest players in the industry, the Group sells own branded products in China through 485 points of sales, as well as having a large scale of exporting ODM and OEM products to renowned international brands. Going forward, the Group will put in more effort to expand the own branded business in China and new business overseas, and strive to create sustainable revenue growth.

Financial Review

For the year ended 31 December 2016, revenue of the Group was RMB360.0 million, down by 49.7% as compared with the year of 2015.

For the year ended 31 December 2016, gross profit of the Group was RMB95.5 million, down by 66.6% as compared with the year of 2015; loss attributable to the ordinary equity holder of the Company amounted to RMB349.6 million, whereas the year of 2015 recorded a profit of RMB74.1 million.

Management Discussion and Analysis

Financial Review (Continued)

Revenue

The following table sets out the Group's revenue derived from its different product categories during the years ended 31 December 2016 and 2015:

	Year ended 31 December			
	2016		2015	
	RMB'000	**%**	RMB'000	%
Ceramic sanitary ware products				
One-piece toilets	**48,802**	**13.6**	257,853	36.0
Two-piece toilets (with water tanks)	**245,060**	**68.1**	299,403	41.8
Washbasins and stands	**17,418**	**4.8**	38,809	5.4
Other ceramic products (including urinals and bidets)	**12,353**	**3.4**	22,391	3.1
Sub-total	**323,633**	**89.9**	618,456	86.3
Non-ceramic sanitary products	**36,344**	**10.1**	97,583	13.7
Total	**359,977**	**100.0**	716,039	100.0

Management Discussion and Analysis

Financial Review (Continued)

Revenue (Continued)

The following tables set out the breakdown of the Group's revenue by sale channels during the years ended 31 December 2016 and 2015:

	Year ended 31 December			
	2016		2015	
	RMB'000	**%**	RMB'000	%
Branded products				
Distributors	**66,169**	**18.4**	350,726	49.0
Direct sales in the PRC	**21,392**	**5.9**	35,157	4.9
Direct sales to overseas customers	**993**	**0.3**	974	0.1
Sub-total	**88,554**	**24.6**	386,857	54.0
Non-branded products				
ODM	**209,215**	**58.1**	276,128	38.6
OEM	**62,208**	**17.3**	53,054	7.4
Sub-total	**271,423**	**75.4**	329,182	46.0
Total	**359,977**	**100.0**	716,039	100.0

The following table sets out the breakdown of the revenue derived from the Group's branded products to distributors per category of city in the PRC during the years ended 31 December 2016 and 2015:

	Year ended 31 December			
	2016		2015	
	RMB'000	**%**	RMB'000	%
First-tier cities	**18,918**	**28.6**	35,621	10.1
Second-tier cities	**7,289**	**11.0**	62,690	17.9
Third-tier and other cities	**39,962**	**60.4**	252,415	72.0
Total	**66,169**	**100.0**	350,726	100.0

Revenue derived from the Group's branded products decreased from RMB386.9 million for the year ended 31 December 2015 to RMB88.6 million for the year ended 31 December 2016. The decrease in revenue was mainly attributable to the continuous slowing down of the macro-economic growth in the PRC as well as the downward trend on selling prices and quantities resulted from the excessive production capacity and inventory level in the building materials and sanitary wares industry.

Management Discussion and Analysis

Financial Review (Continued)

Revenue (Continued)

Revenue derived from the Group's ODM and OEM products decreased from RMB329.2 million for the year ended 31 December 2015 to RMB271.4 million for the year ended 31 December 2016. The decrease was primarily attributable to the dwindling export of sanitary wares products in the PRC as a whole.

The following tables set out breakdown of the Group's revenue by product category and by business segment during the years ended 31 December 2016 and 2015:

Own branded products

	Year ended 31 December 2016			Year ended 31 December 2015		
Products	**Units**	**Average price RMB**	**Revenue RMB'000**	Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**44,658**	**65.8**	**2,938**	45,276	71.4	3,232
One-piece toilets	**70,335**	**498.5**	**35,064**	482,675	495.1	238,958
Washbasins and stands	**134,385**	**74.0**	**9,940**	320,773	96.7	31,026
Other ceramic products (including urinals and bidets)	**64,887**	**72.6**	**4,709**	145,818	114.6	16,705
Non-ceramic sanitary products	**354,177**	**101.4**	**35,903**	925,132	104.8	96,936
Total	**668,442**	**132.5**	**88,554**	1,919,674	201.5	386,857

ODM products

	Year ended 31 December 2016			Year ended 31 December 2015		
Products	**Units**	**Average price RMB**	**Revenue RMB'000**	Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**1,356,160**	**140.4**	**190,343**	1,868,923	134.3	250,952
One-piece toilets	**25,746**	**533.4**	**13,733**	43,190	437.5	18,895
Washbasins and stands	**49,862**	**99.1**	**4,939**	64,156	94.0	6,028
Other ceramic products (including urinals and bidets)	**750**	**265.3**	**199**	954	258.9	247
Non-ceramic sanitary products	**380**	**2.6**	**1**	1,000	6.0	6
Total	**1,432,898**	**146.0**	**209,215**	1,978,223	139.6	276,128

Management Discussion and Analysis

Financial Review (Continued)

Revenue (Continued)

OEM products

Products	Year ended 31 December 2016 Units	Average price RMB	Revenue RMB'000	Year ended 31 December 2015 Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**430,165**	**120.4**	**51,779**	408,355	110.7	45,219
One-piece toilets	**9**	**555.6**	**5**	–	–	–
Washbasins and stands	**26,767**	**94.9**	**2,539**	23,179	75.7	1,755
Other ceramic products (including urinals and bidets)	**25,946**	**286.9**	**7,445**	21,680	250.9	5,439
Non-ceramic sanitary products	**16,021**	**27.5**	**440**	31,058	20.6	641
Total	**498,908**	**124.7**	**62,208**	484,272	109.6	53,054

Gross Profit and Gross Profit Margin

Gross profit decreased by RMB190.0 million, or 66.6%, from RMB285.5 million for 2015 to RMB95.5 million for 2016. Overall gross profit margin decreased from 39.9% for 2015 to 26.5% for 2016.

For 2016 and 2015, the Group's gross profit and gross profit margin by business segment was as follows:

	2016 Gross profit RMB'000	Gross profit margin %	2015 Gross profit RMB'000	Gross profit margin %
Branded products	**15,474**	**17.5**	178,610	46.2
ODM	**66,296**	**31.7**	92,262	33.4
OEM	**13,686**	**22.0**	14,620	27.6
Total	**95,456**	**26.5**	285,492	39.9

Selling and Distribution Expenses

Selling and distribution expenses increased by RMB220.4 million, or 220.7%, from RMB99.8 million for 2015 to RMB320.2 million for 2016. The increase was mainly attributable to the subsidies and supports provided to distributors in key provinces and cities, the relevant expenditures of which are primarily used to enhance the distributors' brand operation capabilities, deepen sales channels, rebuild store image, strengthen brand promotion and solidify brand advantages.

Management Discussion and Analysis

Financial Review (Continued)

Administrative Expenses

Administrative expenses increased by RMB43.7 million, or 67.0%, from RMB65.3 million for 2015 to RMB109.0 million for 2016. This was mainly attributable to one-off recognition of costs in relation to the grant of share options.

Finance Costs

Finance costs represent interest expense on bank and other borrowings of the Group. For the year ended 31 December 2016, finance costs increased by RMB15.9 million, or 79.5%, from RMB20.0 million for 2015 to RMB35.9 million for 2016. This was mainly attributable to the increase in the amount of issued corporate bonds.

Net Loss

For the year ended 31 December 2016, loss attributable to ordinary equity holders of the Company amounted to RMB349.6 million (2015: profit of RMB74.1 million). Basic loss per share amounted to RMB35 cents (2015: basic earnings per share of RMB7 cents).

Gearing Ratio

Gearing ratio is calculated by dividing total interest-bearing debts by total equity. The Group's gearing ratios as at 31 December 2016 was 67.5% (31 December 2015: 53.3%). The gearing ratio increased in 2016 primarily due to the decrease in total equity as a result of the reported net loss for the year.

Major Investments and Disposal

On 13 June 2016, Fujian Fuxiang Property Co., Ltd, a subsidiary of the Company, entered into a Sale and Purchase Agreement with Zhangzhou Jiaye Trading Co., Ltd ("the Purchaser"), a limited company registered in the People's Republic of China, with respect to the sale of 70% equity interest of Fujian Yudeyuan Property Co., Ltd ("Yudeyuan") and the Sale Loan for the consideration of RMB285,000,000. For details of the disposal, please refer to the announcement made by the Company pursuant to the Listing Rules on 13 June 2016 and the circular pursuant to the Listing Rules issued on 28 June 2016. The disposal was completed on 11 July 2016.

Capital Expenditures

The Group's capital expenditures were incurred primarily in connection with purchases of property, plant and equipment and leasehold improvement payments. The Group's capital expenditures were RMB22.5 million for 2016, mainly in connection with the upgrade and improvement of production plant and facilities.

Management Discussion and Analysis

Financial Review (Continued)

Capital commitments

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

	2016 **RMB'000**	2015 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**4,531**	8,757
Investment properties and properties under development	**–**	52,477
	4,531	61,234
Authorised, but not contracted for:		
Property, plant and equipment	**79,559**	268,484
Investment properties and properties under development	**–**	454,300
	84,090	784,018

Operating lease commitments

(a) As lessor

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

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

	2016 **RMB'000**	2015 RMB'000
With 1 year	**–**	2,328
After 1 year but within 5 years	**–**	23,131
After 5 years	**–**	66,844
	–	92,303

Management Discussion and Analysis

Financial Review (Continued)

Operating lease commitments (continued)

(b) As lessee

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

	2016 **RMB'000**	2015 RMB'000
With 1 year	**919**	10,669
After 1 year but within 5 years	**1,329**	23,818
	2,248	34,487

Financial Resources and Liquidity

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

As at 31 December 2016, cash and cash equivalents of the Group amounted to RMB520.1 million, which was mainly denominated in RMB and US dollar.

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

	2016 **RMB'000**	2015 RMB'000
Net cash flows (used in)/generated from operating activities	**(601,626)**	78,303
Net cash flows generated from/(used in) investing activities	**273,656**	(190,209)
Net cash flows (used in)/generated from financing activities	**(63,071)**	41,996
Net decrease in cash and cash equivalents	**(391,041)**	(69,910)
Cash and cash equivalents at beginning of year	**909,894**	969,208
Effect of foreign exchange rate changes, net	**1,293**	10,596
Cash and cash equivalents at end of year	**520,146**	909,894

Management Discussion and Analysis

Financial Review (Continued)

Financial Resources and Liquidity (continued)

Net cash flows from operating activities

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

In 2016, the Group's net cash flow used in operating activities was RMB601.6 million. Cash flow from operating activities changed from net inflow to net outflow for the year was primarily due to the record of loss before tax resulted from revenue drop and the significant increase in selling and distribution expenses.

Net cash flows from investing activities

In 2016, the Group's net cash generated from investing activities was RMB273.7 million, primarily attributable to the proceeds from disposal of a subsidiary.

Net cash flows from financing activities

In 2016, the Group's net cash used in financing activities was RMB63.1 million consisting primarily the repayment of bank loans but partially offset by the proceeds from corporate bond issuance.

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

	2016	2015
	RMB'000	RMB'000
Secured	**134,200**	309,133
Guaranteed	**36,500**	103,234
Unsecured	**–**	30,000
Total	**170,700**	442,367

	2016	2015
	RMB'000	RMB'000
Fixed interest rate	**5,000**	272,950
Floating interest rate	**165,700**	169,417
Total	**170,700**	442,367

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

As at 31 December 2016, the Group had banking facilities of RMB246.9 million. The amount of utilised banking facilities was RMB134.2 million. The unutilised banking facilities was RMB112.7 million.

Management Discussion and Analysis

Financial Review (Continued)

Trade Receivables Turnover Days

Trade receivables primarily comprise amounts to be received from the sale of sanitary ware products to overseas customers. The Group's trade receivables amounted to RMB122.3 million and RMB138.8 million as at 31 December 2016 and 31 December 2015, respectively. The Group's average trade receivable turnover days were 132 days and 66 days for 2016 and 2015 respectively. The increase in trade receivables turnover days was primarily due to the decrease in revenue from domestic customers with advance payment as major payment terms.

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

For 2016 and 2015, there was no material provision for doubtful debts.

Trade Payables Turnover Days

The Group's trade payables primarily arose from the purchases of toilet lids and water tank fittings, packaging material and raw materials for its production activities. The Group had trade payables of RMB116.3 million and RMB233.7 million as at 31 December 2016 and 31 December 2015, respectively. The Group's average payables turnover days were 241 days and 139 days for 2016 and 2015, respectively. The increase in the trade payables turnover days was primarily due to the decrease in cost of sales as a result of sales drop.

Inventory Turnover Days

The Group's inventories increased from RMB104.7 million as at 31 December 2015 to RMB234.8 million as at 31 December 2016. The Group's average inventory turnover days were 234 days and 86 days for 2016 and 2015, respectively. The increase in inventory turnover days was primarily due to the increase in inventory level as a result of the significant drop in sales of own branded products.

Bank Borrowings and Other Borrowings

As at 31 December 2016, the balance of the Group's bank loans and other borrowings was RMB170.7 million, down by RMB271.7 million or 61.4% from that of RMB442.4 million as at 31 December 2015.

Certain of the Group's bank loans are secured by: (i) mortgages over the Group's prepaid land lease payments situated in Mainland China, which had aggregate carrying values of approximately RMB11.2 million and RMB11.5 million as at 31 December 2016 and 31 December 2015, respectively; (ii) mortgages over the Group's buildings, which had aggregate carrying values of approximately RMB58.6 million and RMB62.0 million as at 31 December 2016 and 31 December 2015, respectively; (iii) mortgages over the Group's forward letters of credit which amounted to RMB nil and RMB30.1 million as at 31 December 2016 and 31 December 2015, respectively; (iv) mortgages over the Group's pledged bank balances which amounted to RMB23.4 million and RMB115.5 million at 31 December 2016 and 31 December 2015; and (v) mortgages over the Group's properties under development which amounted to RMB nil and RMB141.4 million at 31 December 2016 and 31 December 2015, respectively.

Management Discussion and Analysis

Financial Review (Continued)

Certain Specific Risks and Uncertainties

Risks of Foreign Exchange

The Group has transactional currency exposure. Such exposure mainly arises from sales transactions denominated in United States dollars. The Group regularly monitors its foreign exchange exposure and will consider the need to hedge against significant foreign currency exposure where appropriate. During the reporting period, the Group did not enter into any derivative contract to hedge against fluctuations in the foreign currency.

Risks of Environmental Protection Regulation

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

Risks Related to Expansion of Sales Network

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

Risks of Employment and Labour

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

Contingent Liabilities

As at 31 December 2016, neither the Group nor the Company had any significant contingent liabilities.

Events after the Reporting Period

On 21 January 2017, an indirect wholly owned subsidiary of the Company, Zhangzhou Wanhui Sanitary Ware Co., Ltd. (漳州萬暉潔具有限公司) entered into the Sale and Purchase Agreement with five individuals ("Vendors"), pursuant to which the Company has conditionally agreed to purchase the Xiamen Mas-Agee Electronic Technology Co., Ltd. (廈門凱浦瑞電子科技有限公司), and the Vendors have conditionally agreed to sell, the Sale Shares at the Consideration of RMB71,500,000 (equivalent to approximately HK$80,454,596) which will be satisfied (i) as to RMB14,300,000 (equivalent to approximately HK$16,090,919) in cash; and (ii) as to RMB57,200,000 (equivalent to approximately HK$64,363,677) by issue of the consideration Shares by the Company.

Management Discussion and Analysis

Employees and Remuneration

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

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

The Group reviews its remuneration policy annually. As at 31 December 2016, the Group had about 1,340 full-time employees, and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration.

In addition to the basic remuneration, the Group also provided certain non-monetary benefits, such as training, to its employees. For 2016, the Group provided 1,818 hours of training in aggregate for about 115 person-times. The training courses covered areas such as industry development, marketing management, operation and management, laws and regulations, lean management, project management, finance, logistics, information technology, safe production and general working skills. These training further improved the management skills and professional standard of the management of the Group and enhanced the overall quality of the employees to cater to the Group's rapid developments; hence, improving the competitiveness of the Group.


Bolina

Better Products

With

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

Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Zhihong (鄭志鴻), aged 46, is the chairman, the chief executive officer, and an executive Director of our Company. Mr. Zheng was appointed to our Board on 2 December 2016. He is responsible for the overall management, strategic planning and business development of our Group.

Mr. Zheng holds a degree of business management in The Open University of Fujian. Mr. Zheng was then awarded a master degree of Business Administration, Global Business Management from School of Business and Information Technology of Northwestern Polytechnic University. Mr. Zheng has over ten year experience in trading and wholesaling ceramic sanitary ware products, and has extensive business and investment experience in trading of agricultural produce and property investment.

Mr. Yang Qingyun (楊清雲), aged 46, is an executive Director of our Company and is responsible for our Group's human resources management and general operations. He was appointed to our Board on 25 June 2012. Mr. Yang joined our Group in July 2006 and since then he has served as assistant manager and manager of the finance department and general manager assistant of Zhangzhou Wanhui. Prior to joining our Group, Mr. Yang held several positions including accounting supervisor at 長泰聖源織帶有限公司 (Saint Source Webbing Co., Ltd.) from 1993 to 1998, and from 1999 to 2002 he was an accounting supervisor at 長泰鉅高工藝品公司 (Changtai Jugao Crafts Company). Mr. Yang was appointed as an accountant supervisor and deputy factory director at 長泰晶美文具公司 (Changtai Jingmei Stationery Company) from 2002 to 2006.

Mr. Zhang Ming (張明), aged 42, was appointed as executive Director of our Company on 2 October 2016. Mr. Zhang holds a bachelor degree of economics in Guangdong University of Technology. Mr. Zhang has extensive experience in sales and investment and holds senior position in various investment companies.

Ms. Sun Yumei (孫玉梅), aged 42, was appointed as executive Director of our Company on 27 March 2017. Ms. Sun obtained a Bachelor Degree in Sales and Marketing (市場營銷學士學位) from Wuhan Institute of Technology (武漢化工學院) in 1997. Ms. Sun has over 19 years of experience in marketing and promotion management of ceramic sanitary ware industry.

Mr. Lam Ying Choi, Donny (林英才), aged 56, was appointed as executive Director of our Company on 27 March 2017. Mr. Lam has over 30 years of experience in sales and marketing management of motor import and export business.

Directors and Senior Management

Independent Non-Executive Directors

Mr. Jiang Guoxiang, aged 52, was appointed as an independent non-executive Director of our Company on 14 June 2016. Mr. Jiang holds various professional qualifications such as certified public accountant, certified tax adviser and certified public valuer. Mr. Jiang has been the deputy director of Dexin Certified Public Accountants (德信會計師事務所) in Zhangzhou City, Fujian Province since January 2000, and has concurrently served as the director of Haixi Taxation Service Center (海西財稅服務中心) and the general manager of Yifang Taxation Consultancy Co., Ltd. (一方財稅諮詢顧問有限公司). Mr. Jiang served as a member of Zhangzhou Municipal Audit Bureau in Fujian Province from October 1990 to December 1999, and the chief accountant of Zhangzhou Building Ceramics Factory (漳州建築瓷廠) in Fujian Province from August 1984 to October 1990. Mr. Jiang graduated from China Central Radio and Television University (中央廣播電視大學), majoring in Accounting (undergraduate). In addition, Mr. Jiang also serves as the vice chairman of the Private Enterprise Association of Fujian Provincial Accountant Society (福建省會計學會民營企業分會), the director of Zhangzhou Municipal Work Committee under the Private Enterprise Association of Fujian Provincial Accountant Society and other social positions.

Mr. Zhang Shujun, aged 29, was appointed as an independent non-executive Director of our Company on 27 March 2017. Mr. Zhang obtained a Bachelor Degree in Business Management (工商管理學士學位) from Hunan Institute of Science and Technology (湖南理工大學) in 2011. Mr. Zhang has over 5 years of experience in sales and marketing management of sanitary ware industry.

Ms. Kwok Wai Ling, aged 63, was appointed as an independent non-executive Director of our Company on 27 March 2017. Ms. Kwok has over 30 years of experience in sales management of real estate business and other industries.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Zhao Chongkang (趙崇康), aged 59, is an executive deputy general manager of our Group, responsible for the overall management as well as the production operations of our Group. Mr. Zhao joined our Group in August 2007 and he has been a deputy general manager of Zhangzhou Wanhui since September 2010 and was a deputy general manager and the chief engineer of Zhangzhou Wanjia from August 2007 to September 2010. Mr. Zhao has over 33 years of experience in the ceramics and sanitary ware industries. Since 1982 Mr. Zhao has worked for several ceramics factories and companies including the 湖南省陶瓷廠 (Hunan Ceramics Factory), 湖南省建築陶瓷總公司 (Hunan Construction Ceramics Company) and 中國瓷都九州潔具廠 (China Jiuzhou Porcelain Capital Sanitary Wares Factory). Prior to joining our Group, he was a deputy general manager of the Chaozhou Xianghua Donglong Ceramic Co., Ltd. (廣東省潮州市翔華東龍瓷業有限公司) from October 2003 to January 2007. In addition, Mr. Zhao was appointed vice chairman of the national standing committee for the first session for the Chinese magazine "陶瓷" ("Ceramics") in February 2009 and he is a member of the science and education committee of the China Building Materials Federation (中國建築材料聯合會). Mr. Zhao graduated from South China University of Technology (華南理工大學) in January 1982. He is a senior engineer admitted by the Hunan provincial government.

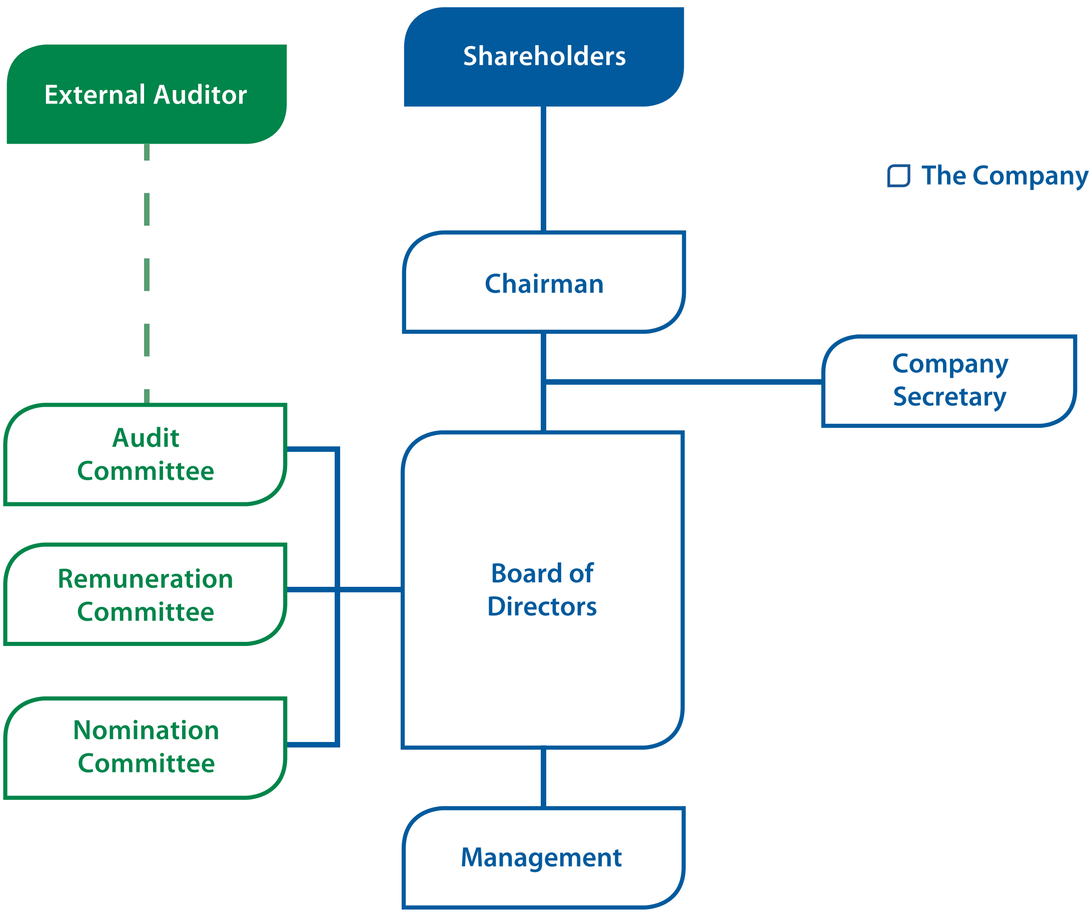
Mr. Chen Zhiqiang (陳志強), aged 47, is a deputy general manager of our Group. Mr. Chen has been employed by our Group since its establishment and has been a deputy general manager of Zhangzhou Wanjia and an assistant general manager of Zhangzhou Wanhui since June 2009. Before joining our Group, Mr. Chen worked for Double Rhomb Sanitary Ware Company as a quality control person-in-charge and molding workshop officer from October 1997 to November 1999. From 1993 to July 1997 and November 1999 to January 2002 he worked for 寶盛漳州建陶有限公司 (Baosheng Zhangzhou Construction Ceramics Limited) as a technician, assistant manager of colour glazed pottery factory and assistant quality control manger. In December 2009, Mr. Chen was appointed as a member of the National Technical Committee on Building and Sanitary Ceramics of Standardization Administration of China (全國建築衛生陶瓷標準化技術委員會). He received his bachelor's degree in engineering from East China Institute of Chemical Technology (華東化工學院), also known as East China University of Science and Technology (華東理工大學), in July 1992. Mr. Chen is also a qualified engineer.

Mr. Zhu Jiaqin (朱甲欽), aged 48, is a deputy general manager of our Group. Since Mr. Zhu joined our Group in May 2002, he has been a manager of the product development department and production department and a deputy general manager of Zhangzhou Wanjia, and the manager of the production department of Zhangzhou Wanhui. Mr. Zhu has over 20 years of experience in the ceramics and sanitary ware industries and had worked for the 湖南省建築陶瓷廠 (Hunan Construction Ceramics Factory), 中國九州潔具廠 (China Jiuzhou Sanitary Wares Factory) and Huida Ceramic Group Co., Ltd. (惠達陶瓷集團股份有限公司). He is a qualified engineer in China.

Corporate Governance Report

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

Corporate Governance Framework



CORPORATE GOVERNANCE CODE

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

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

The Board is of the view that the Company has complied with the Code Provisions set out in the Code as contained in Appendix 14 to the Listing Rules for the year ended 31 December 2016, except for code provision A.2.1.

Corporate Governance Report

A. BOARD OF DIRECTORS

A1: Responsibilities and Delegation

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

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

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

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

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

The Board held eight Board meetings during the year ended 31 December 2016:

(1) During the meeting held on 5 February 2016, the Board considered and approved (a) the resignation of Ernst & Young ("EY") as the auditors of the Company; and (b) the appointment of Elite Partners CPA Limited as the auditors of the Company to fill the casual vacancy following the resignation of EY.

(2) During the meeting held on 31 March 2016, the Board considered and approved (a) the annual report of the Group for the year ended 31 December 2015, the annual results announcement of the Group for the year ended 31 December 2015 and relevant authorization in relation thereto; (b) declaration of no final dividend for the year ended 31 December 2015; (c) arrangements for closure of register of members of the Company to determine the entitlement of shareholders to attend and vote at the annual general meeting for 2015; (d) the holding of the annual general meeting for 2015 on 31 May 2016; (e) the management representation letter to be issued to the Company's auditors; (f) the circular in relation to, inter alia, the annual repurchase mandate and issuance mandate; (g) rotation and re-election of relevant directors of the Company, and (h) the independence of the independent non-executive directors of the Company.

(3) During the meeting held on 14 June 2016, the Board considered and approved the appointment of Mr. Jiang Guoxiang as an independent non-executive Director of the Company.

Corporate Governance Report

(4) During the meeting held on 30 June 2016, the Board considered and approved (a) the resignation of Mr. Lin Shimao as independent non-executive Director and member of the Audit Committee, Nomination Committee and Remuneration Committee of the Board; and (b) the appointment of Mr. Jiang Guoxiang as the Chairman of the Audit Committee of the Board.

(5) During the meeting held on 7 July 2016, the Board considered and approved (a) the resignation of Prof. So Wai-man, Raymond as independent non-executive Director of the Company and a member of the Audit Committee of the Board; and (b) the appointment of Mr. Wong Yuk Lun, Alan as an independent non-executive Director of the Company and a member of the Audit Committee of the Board.

(6) During the meeting held on 30 August 2016, the Board considered and approved (a) the draft Interim Report and the draft Interim Results Announcement of the Group for the six months ended 30 June 2016, and their publication; (b) that there be no declaration of the interim dividend for the six months period ended 30 June 2016.

(7) During the meeting held on 2 October 2016, the Board considered and approved the appointment of Mr. Zhang Ming as an executive Director of the Company.

(8) During the meeting held on 2 December 2016, the Board considered and approved the appointment of Mr. Zheng Zhihong as an executive Director of the Company.

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

Name of director	Expected times of attendance during the year (times)	Actual times of attendance	Times of attendance by proxy	Times of absence
Xiao Zhiyong	8	8	0	0
Ye Xiaohong	8	8	0	0
Yang Qingyun	8	8	0	0
Lu Jianqing	8	8	0	0
Zhang Ming	1	0	0	1
Zheng Zhihong	0	0	0	0
Tong Jifeng	8	8	0	0
Lin Shimao	3	3	0	0
So Wai-man, Raymond	5	5	0	0
Jiang Guoxiang	5	5	0	0
Wong Yuk Lun, Alan	3	3	0	0

Corporate Governance Report

During the year ended 31 December 2016, the Company held its annual general meeting for 2015 details of which are as follows:

The Company's annual general meeting was held on 31 May 2016 at 35/F, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong. The following ordinary resolutions were considered and approved at the meeting; (1) To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31 December 2015; (2) To re-elect relevant directors as directors, and to authorize the Board to fix the Directors' Remuneration; (3) To re-appoint Elite Partners CPA Limited as auditors of the Company and to authorize the Board to fix their Remuneration; (4) To give a general mandate to the directors to repurchase the Company's shares not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company; (5) To give a general mandate to the directors to issue, allot and deal with additional shares of the Company not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company, and (6) To extend the general mandate granted to the directors to issue, allot and deal with additional shares in the capital of the Company by the aggregate nominal amount of shares repurchased by the Company (For details of the relevant resolutions, please refer to the announcement published on HKExnews website of the Hong Kong Stock Exchange on that day). The said General Meeting was chaired by Chairman Xiao Zhiyong. The Directors of the Company, chairman of each board committee, senior management and auditor had attended such meeting and answered queries from the shareholders.

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

Name of director	Mandatory times of attendance during the year	Actual times of attendance
Xiao Zhiyong	1	1
Ye Xiaohong	1	1
Yang Qingyun	1	1
Lu Jianqing	1	1
Tong Jifeng	1	1
Lin Shimao	1	1
So Wai-man, Raymond	1	1

A3: Chairman and Chief Executive Officer

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

Mr. Zheng Zhihong ("Mr. Zheng") currently holds the positions of Chairman and Chief Executive Officer of the Company. Mr. Zheng has over 10 years of experience in trading and wholesaling ceramic sanitary ware products. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. Zheng provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies, and will not impair the balance of power and authority between the Board and the management of the Company.

Corporate Governance Report

A4: Board Composition

The Board currently comprises 8 directors, including 5 executive directors and 3 independent non-executive directors ("INEDs"). During the reporting period, Mr. Zhang Ming and Mr. Zheng Zhihong were appointed as executive Directors and Mr. Jiang Guoxiang and Mr. Wong Yuk Lun, Alan replaced Mr. Lin Shimao and Mr. So Wai-man, Raymond as independent non-executive Directors.

Details of the biographies of the directors are given under the section "Directors and Senior Management" of this Annual Report. None of the directors or senior management is related to each other.

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

On 5 February 2016, 31 March 2016 and 30 August 2016, the Audit Committee of the Company met for three times. All the three members of the Audit Committee are independent non-executive Directors. They attended the meetings and delivered their opinions on relevant matters in both capacities, i.e. as members of the Audit Committee and as independent non-executive Directors.

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

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

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

During the year ended 31 December 2016, the Board at all times met the listing requirements of having at least 3 INEDs, and that at least one of them had appropriate professional qualifications in accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED on his independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

Corporate Governance Report

A5: Appointment, Re-election and Removal

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

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

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

A6: Remuneration Policy and Long-Term Incentive Plan

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

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

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

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

Corporate Governance Report

B. THE BOARD COMMITTEES

B1: Audit Committee

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

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

The Audit Committee currently comprises 3 members, namely Mr. Jiang Guoxiang (Committee Chairman), Mr. Zhang Shujun and Ms. Kwok Wai Ling, who were appointed to the Audit Committee on 14 June 2016, 28 March 2017 and 28 March 2017 respectively. The Audit Committee meets at least twice a year to review the Group's results.

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

Date of meeting	Matters considered at the meeting
5 February 2016	(1) discussed and proposed to the Board the acceptance of the resignation of Emst & Young ("EY") as the auditors of the Company; (2) discussed and proposed to the Board the appointment of Elite Partners CPA Limited as the auditors of the Company to fill the casual vacancy following the resignation of EY; and (3) discussed and proposed to the Board the amount of audit fees payable to Elite Partners CPA Limited for the audit of financial year 2015.
31 March 2016	(1) reviewed the report to the Audit Committee arising from its auditing of annual results of the Group for the year ended 31 December 2015, as prepared by the auditors of the Company, Elite Partners CPA; (2) reviewed and approved the draft audited consolidated financial statements of the Group, draft audited annual results announcement and draft annual report for the year ended 31 December 2015, and recommended the same to the Board of the Company; (3) reviewed and evaluated the internal control system of the Company, and (4) approved the auditors' fee and discussed and re-appointed Elite Partners CPA as the auditors of the Group for 2016, and recommend the same to the Board of the Company.
30 August 2016	Reviewed and approved the draft consolidated interim results of the Group for the six months ended 30 June 2016 and recommend the same to the Board of the Company.

Corporate Governance Report

Attendance of the members at the meetings of the Audit Committee during the reporting period:

Name of committee member	Times of attendance/ Expected times of attendance
Lin Shimao	1/1
Tong Jifeng	2/2
So Wai-man, Raymond	1/1
Jiang Guoxiang	1/1
Wong Yuk Lun, Alan	1/1

Overview of Audit Work of the Company:

The audit on the Company conducted by Elite Partners CPA in 2016 mainly consisted of the annual audit for 2015. During the annual audit, Elite Partners CPA carried out audit on assets, liabilities, equity as well as profit or loss items. In addition, they also carried out the same procedures on subsidiaries incorporated in the consolidated statements.

In order to successfully complete the audit on the 2015 Annual Financial Report of the Company and supervise Elite Partners CPA to issue relevant audit reports within the agreed period, the Audit Committee discussed with Elite Partners CPA about the audit plan, audit progress, audit findings as well as the review of the audit report.

On 31 March 2016, Elite Partners CPA issued the audit reports with an unqualified audit opinion within the scheduled time.

In addition, the Audit Committee conducted an annual appraisal of Elite Partners CPA. The Audit Committee is also responsible for reviewing the independence of Elite Partners CPA. The Audit Committee has received a written confirmation from Elite Partners CPA of their independence and objectivity prior to the audit of the Company's 2015 financial statements. Elite Partners CPA shall not offer any other non-audit service unless otherwise approved to ensure that their judgment and independence in the audit are not undermined. The Audit Committee of the Company was of the opinion that Elite Partners CPA conducted its independent audit on the 2015 Annual Financial Report of the Company in a diligent, fair and objective manner, and successfully completed the annual audit work.

Corporate Governance Report

B2: Remuneration Committee

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

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

The Remuneration Committee now consists of 3 members (namely, Mr. Zhang Shujun (Committee Chairman), Mr. Jiang Guoxiang and Ms. Kwok Wai Ling), all of whom are INEDs.

The Remuneration Committee held six meetings during the reporting period:

Date of meeting	Matters considered at the meeting
31 March 2016	(1) reviewed and discussed the Company's policy and structure for the remuneration of directors and senior management of the Company, and (2) reviewed the remuneration for the directors of the Company for the year 2015 and the remuneration and bonus policy for the year 2016.
14 June 2016	discussed and proposed to the Board the remuneration of Mr. Jiang Guoxiang being newly appointed independent non-executive Director of the Company.
7 July 2016	discussed and proposed to the Board the remuneration of Mr. Wong Yuk Lun, Alan being newly appointed independent non-executive Director of the Company.
30 August 2016	reviewed and discussed (1) the remuneration system of the Company for directors and senior management; and (2) the implementation of relevant remuneration policies of the Company for the six months period ended 30 June 2016.
2 October 2016	discussed and proposed to the Board the remuneration of Mr. Zhang Ming being newly appointed executive Director of the Company.
2 December 2016	discussed and proposed to the Board the remuneration of Mr. Zheng Zhihong being newly appointed executive Director of the Company.

Corporate Governance Report

Attendance of the members at the meetings of the Remuneration Committee during the reporting period:

Name of committee member	Times of attendance/ Expected times of attendance
Yang Qingyun	3/3
Tong Jifeng	6/6
Lin Shimao	2/2
Jiang Guoxiang	4/4
Lu Jianqing	3/3

B3: Nomination Committee

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

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

The Nomination Committee now consists of 3 members (namely, Mr. Zheng Zhihong (Committee Chairman), Mr. Jiang Guoxiang and Mr. Zhang Shujun), the majority of whom are INEDs, namely, Mr. Jiang Guoxiang and Mr. Zhang Shujun.

The Nomination Committee held six meetings during the reporting period:

Date of meeting	Matters considered at the meeting
31 March 2016	(1) reviewed and discussed the structure, size and composition of the Board of Directors of the Company; (2) reviewed and assessed the independence of the independent non-executive directors of the Company; (3) reviewed and recommended to the Board the re-election of Ms. Ye Xiaohong, Mr. Yang Qingyun and Mr. Tong Jifeng as directors of the Company.
14 June 2016	discussed and proposed to the Board the appointment of Mr. Jiang Guoxiang being independent non-executive Director of the Company and member of the Audit Committee, Nomination Committee and Remuneration Committee of the Board.

Corporate Governance Report

Date of meeting	Matters considered at the meeting
7 July 2017	discussed and proposed to the Board the appointment of Mr. Wong Yuk Lun, Alan being independent non-executive Director of the Company and a member of the Audit Committee of the Board.
30 August 2016	reviewed and discussed (1) the composition of the board of directors of the Company; (2) the operation of nomination system for directors of the Company; and (3) the implementation of relevant nomination policies of the Company for the six months period ended 30 June 2016.
2 October 2016	discussed and proposed to the Board the appointment of Mr. Zhang Ming being executive Director of the Company.
2 December 2016	discussed and proposed to the Board the appointment of Mr. Zheng Zhihong being executive Director of the Company.

Attendance of the members at the meetings of the Nomination Committee during the reporting period:

Name of committee member	Times of attendance/ Expected times of attendance
Xiao Zhiyong	6/6
Tong Jifeng	6/6
Lin Shimao	2/2
Jiang Guoxiang	4/4

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

Corporate Governance Report

C. ACCOUNTS AND INTERNAL CONTROL

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

C1: Financial Reporting

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

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

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

The Directors ensure that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. In preparing the financial statements for the year ended 31 December 2016, the Directors:

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

2. selected and applied consistently appropriate accounting policies;

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

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

The Independent Auditors' Report from pages 66 to 71 of this Annual Report sets out the reporting responsibilities of Elite Partners CPA Limited, the external auditors of the Company.

C2: Risk Management and Internal Controls

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.

Corporate Governance Report

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 stakeholder's 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 prioritized 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.

For the year ended 31 December 2016, 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.

Corporate Governance Report

D. INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

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

The Group values the importance of maintaining a two-way communication with the investment community. Chairman of the Company has been taking the lead and involved in the investors relations activities of the Company. During the year of 2016, the Group maintains regular contact with research analysts, investors and the media through various channels such as one-on-one meetings, plant visits, luncheons and teleconferences. Analyst meetings and press conferences were also held after results announcements. In order to keep overseas investors abreast of its results performance and business development, the Group also actively participated in various international investment forums or non-deal road shows.

There was no significant changes in the Company's constitutional documents from the Listing Date to 31 December 2016.

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

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

E. DISCLOSURE OF OTHER INFORMATION

E1: Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group. All directors have confirmed, following specific enquiry by the Group, that throughout year 2016, they complied with the required standard set out in the Model Code for securities transactions. The directors' interests in shares of the Group as at 31 December 2016 are set out in the section "Directors' Report" of this Annual Report.

Corporate Governance Report

E2: Training and Continuing Development for Directors

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

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

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

E3: External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2016 is set out in the section headed "Independent Auditors' Report" in this annual report. The fees paid/payable to Elite Partners CPA Limited for the year ended 31 December 2016 is RMB1,641,000.

Environmental, Social and Governance Report

Introduction and Scope of ESG Report

The Board is pleased to present the first Environmental, Social and Governance ("ESG") report of the Group prepared according 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 Group is committed towards sustainability and understands the importance of sustainable development of its business and community.

As this is the first ESG report of the Group it will present mainly policies, initiatives and performance of the Group for the year ended 31 December 2016. It will also highlight material aspects identified in 2016 with the Board confirms the report has been reviewed and approved to ensure all material issues and impacts are fairly presented.

The ESG report of the Group has been presented into two subject areas including Environmental and Social section. Each subject disclose the relevant policies and the status of compliance with relevant laws and regulations as addressed by the ESG Guide. The following will show the ESG guide and relevant ESG issue to the Group.

ESG Guide		Relevant ESG issues to the Group
A.	Environmental	
A.1	Emissions	Carbon dioxide, micro dust, spray paint 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

Environmental, Social and Governance Report

The Group

The principal activity of the Group is engaging in investment holding along with manufacturing and selling of sanitary ware and accessories. The Group is one of the largest manufacturers of ceramic sanitary ware products in China, to produce "Bolina" brand (own branded products) as well as ODM (original design manufacturing) and OEM (original equipment manufacturing) products for international well-known brands.

A. Environmental

A.1 Emissions

Carbon dioxide, micro dust and spray paint

Major emissions come from manufacturing product such as two-piece toilets (with water tanks), washbasins and stands and other ceramic products including urinals and bidets. The Group ensured waste water is properly connected to municipal sewage system and all land waste is send to municipal solid waste management plant during production. Spray paint will also contribute environmental impact. The Group will take strict control on the regulations in spray paint selection and ensure employees wear safety masks during use. Micro dust will also emit from production of product, therefore, proper equipment to control dust in factory is critical. Related department will make analysis on data from assessment to take better measures in reducing emissions.

Waste management

As the Group is engaging in manufacture sanitary ware, strict control has been taken for emissions of air, water and land waste. It is the Group's policy to maintain the manufacture process in an efficient and effective manner to continue minimizing environmental impact.

The Group constantly update with local legislation and standards for environmental protection and in the year ended 31 December 2016, 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》.

A.2 Use of resources

Energy and water consumption

The Group is committed to perform regular assessment in analysing data in aims for better management in the use of resource. The resources used by the Group relates to water consumption, electricity and raw material. The Group has various policies to efficiently use resources during production to reduce waste with optimal schedule of production. The use of resources involves raw material in manufacturing stage of the product such as talc, gypsum powder and clay. Assessment from management will be made to reduce the environmental impact from these raw materials.

A.3 Environmental and natural resources

Measures in reducing environmental impact

To lower the environmental impact and use of natural resources, the management of the Group would evaluate the polices from time to time to create sustainable environmental value such as energy saving initiative. Also, to promote a culture for employees to have good practice of the Group's saving measures. The Group will continue to seek alternative environmental friendly resources and materials to reduce the emissions of air, water and land waste.

Environmental, Social and Governance Report

B. Social

B.1 Employment

Labour practices

The Group has committed in having a good workplace practice free from discrimination and received equal opportunities for all despite of age, gender, race, colour, sexual orientation, disability or marital status to increases employee satisfaction.

To ensure an equal and fair working environment, the Group has adopted 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》and other relevant laws and regulations for recruitment and promotion. The employment contract specified the terms including compensation and dismissal, working hours, rest periods and other benefits and welfare for the staff. The Group's employee handbook distributed to employees also highlight important information of policies on compensation, employee benefits, rights on termination, business conduct and leave benefits. There is also regular annual assessment of employees to analyse staff's performance.

To increase work-life balance and promote good relationship with employees there is annual dinner, social activities and team building activities for all Group's employees.

B.2 Health and Safety

Workplace health and safety

The Group has priority to focus on the Occupational Health and Safety for the employees. 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 to provide a safe, healthy and comfortable working environment. Workplace is equipped with fire and safety equipment to prevent outbreak of fire accident and the validity of the fire facilities have been regularly checked. During the year, the Group has reported zero work related fatalities and work injuries.

B.3 Development and Training

Employee development and training

Employee's development plays a fundamental role in placing a solid ground for business growth and employees are encouraged to continue development and improve their skill set through training. The Group has various training programmes, internal and external, to fully develop its workforce. New employees are also provided with on-board training to help adapt faster to the operations of the Group.

B.4 Labour Standards

Child labour and forced labor

The Group has strictly complied with Labour Contract Law of the People's Republic of China《中華人民共和國勞動合同法》. Any individuals under legal working age and individuals without any identification documents are disqualified from employment. The Group has committed to protect the labour right of staff and established compliant mechanism for staff to report the violation for labour right.

Upon discovery of any child labour and use of forced labour, the person will be dismissed immediately and the Board will discuss and review the discovered event to prevent it from happening again. For the year ended 31 December 2016, there is no labour dispute between the Group and its staff.

Environmental, Social and Governance Report

B.5 Supply Chain Management

Supplier management

The quality and safety of sanitary ware is top priorities of the Group. The Group are committed to ensure its supply chain is operating as efficiently as possible to ensure its products are safe and standardised. Greater emphasis is placed on the communication and relationship with the suppliers towards sustainable development.

The objectives are to deepen the collaborative relationship with the strategic suppliers and to create competitive advantages in the value chain, thereby aim to reduce the impact on the society and environment. The Group also tended to maintain long term relationship with its suppliers for ensuring stable supply of materials or goods.

B.6 Product Responsibility

Product safety and quality

The Group has adopted policies to ensure the product satisfactory and maintains good quality standard such as if discovered the product has quality problem, the product can be exchanged. For the year ended 31 December 2016, the Group did not have any product returned due to safety or health problems or any complaint received from the customers and has fully complied with Product Quality Law of the People's Republic of China《中華人民共和國產品質量法》. The Group ensured the product quality by checking the materials before production and return any materials that has problem to the suppliers immediately. In order to protect consumer data and privacy client information are kept in confidential and destroy on a timely basis.

B.7 Anti-Corruption

Anti-corruption and money laundering

Maintaining high standards of business integrity in its operation, the Group has no tolerance towards any corruption, fraud, money laundering, bribery, and extortion. There is also compliance with relevant laws and regulations such as 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《中華人民共和國反不正當競爭法》. For the year ended 31 December 2016, such events have never happened in the Group.

A system with good moral integrity and anti-corruption mechanism is the cornerstone for a sustainable and healthy development of the Group. The Group adopted formal policy for reporting violations and any suspicious transactions would be notified and reported to the relevant governing body by responsible officer.

B.8 Community investment

Community involvement

To contribute back to the society is part of the Group's commitment to fulfill corporate social responsibility. The Group's sustainable development strategy is to expand its efforts in the area of charity work. The Group is committed to provide career opportunities to the locals and promoting the development of the community's economy. Also, the Group will try to seek opportunities to work with charity partners in the future to get involved in various community programs.

Directors' Report

The board of directors of the Company (the "Board") are pleased to present the directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Business Review

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 14 to 27 of this annual report. The review forms part of this Directors' Report.

Principal Activities

The principal activity of the Company is investment holding.

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

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 72 of the annual report.

The Board resolved not to distribute a final dividend for the year ended 31 December 2016.

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 150 of the annual report.

Major Customers and Suppliers

The aggregate turnover attributable to the Group's five largest customers represented approximately 71.2% of the Group's total turnover for the year 2016, with the single largest customer contributing to approximately 40.3% of the Group's total turnover for the year. The aggregate purchase attributable to the Group's five largest suppliers represented approximately 56.7% of the Group's total purchases for the year 2015, with the single largest supplier contributing to approximately 39.1% of the Group's total purchases for the year.

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

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group for the year are set out in note 11 to the consolidated financial statements.

Directors' Report

Share Capital

Details of the movements in share capital of the Company for the year are set out in note 29 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 76 of the annual report.

Distributable Reserves of the Company

As at 31 December 2016, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Cayman Companies Law amounted to RMB295,579,000 (2015: RMB342,222,000).

Donations

During the year ended 31 December 2016, the Group did not make any charitable donations in cash.

Directors

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

Executive Directors

Mr. Zheng Zhihong *(Chairman and Chief Executive Officer)*
Mr. Yang Qingyun
Mr. Zhang Ming
Ms. Sun Yumei
Mr. Lam Ying Choi, Donny

Independent Non-Executive Directors

Mr. Jiang Guoxiang
Mr. Zhang Shujun
Ms. Kwok Wai Ling

In accordance with the Articles of Association of the Company, Mr. Zheng Zhihong, Mr. Zhang Ming, Ms. Sun Yumei, Mr. Lam Ying Choi, Donny, Mr. Jiang Guoxiang, Mr. Zhang Shujun and Ms. Kwok Wai Ling will retire at the forthcoming extraordinary general meeting of the Company and being eligible, offer themselves for re-election.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management of the Company are set out from pages 30 to 32 of the annual report.

Directors' Service Contracts

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

Directors' Report

Directors' Interests in the Shares and Share Options

As at 31 December 2016, the interests of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

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

Name	Long/Short position	Type of interest	Number of Shares	Percentage of shareholding in the Company
Mr. Xiao Zhiyong ("Mr. Xiao")	Long position	Interest in a controlled corporation[1]	25,569,980	2.52%
	Short position	Interest in a controlled corporation[1]	152,800,000[3]	15.05%
Ms. Ye Xiaohong ("Ms. Ye")	Long position	Interest of spouse[2]	25,569,980	2.52%
	Short position	Interest of spouse[2]	152,800,000[3]	15.05%
Max Lucky Group Limited ("Max Lucky")	Long position	Beneficial owner	25,569,980	2.52%
	Short position	Beneficial owner	152,800,000[3]	15.05%
Mr. Zheng Zhihong ("Mr. Zheng")	Long position	Beneficial owner	4,614,000	0.45%

Notes:

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

2. Ms. Ye, being the wife of Mr. Xiao, is deemed (by virtue of the SFO) to be interested in 178,369,980 shares in the Company which are held by Max Lucky. Max Lucky is wholly-owned by Mr. Xiao.

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

(b) Interests in share options of the Company

Pursuant to a resolution passed on the general meeting of shareholders held on 25 June 2012, the Company adopted a share option scheme (the "Share Option Scheme"). As at 31 December 2016, no share options had been granted by the Company pursuant to the Share Option Scheme to any Director or Chief Executive of the Company.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company had any interests or short positions in any shares, share options, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

Substantial Shareholders

As at 31 December 2016, other than the interests disclosed in the section "Directors' interest in the Shares and Share Options", the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that the following person(s)/corporation(s) held interests or short positions in 5% or more of the issued shares capital of the Company:

Name	Long/Short position	Type of interest	Number of Shares	Percentage of shareholding in the Company
Ms. Xiao Xiuyu ("Ms. Xiao")	Long position	Interest in a controlled corporation(1)	52,340,000	5.15%
	Short position	Interest in a controlled corporation(1)	27,000,000	2.66%
Grand York Holdings Limited ("Grand York")	Long position	Beneficial owner	52,340,000	5.15%
	Short position	Beneficial owner	27,000,000	2.66%
China Cinda Asset Management Co., Ltd.	Long position	Custodian	300,000,000	29.55%
Xie Guilin	Long position	Interest in a controlled corporation(2)	283,624,020	27.93%

Note:

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

2. Xie Guilin is deemed to be interested in the shares held by Business Century Investments Limited by virtue of Business Century Investments Limited being controlled by Xie Guilin directly.

Save as disclosed above, other than the Directors or chief executive of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2016.

Directors' Interests in Contracts, Transactions or Arrangements of Significance

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

Management Contracts

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

Directors' Report

Directors' Interests in Competing Business

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

Deed of Non-Competition

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

The following actions or procedures are adopted and taken by the Covenantors, the Company and its directors during the year ended 31 December 2016 to ensure the Covenantors' compliance with the terms of the Deed of Non-Competition:

(a) The Covenantors signed and delivered to the Company an annual confirmation letter confirming their compliance with the Deed of Non-Competition and that they did not have any interest in the Restricted Business during the year ended 31 December 2016;

(b) At the board meeting where the annual results of the Group for 2016 are considered and approved, the independent non-executive directors of the Company received and reviewed the abovementioned confirmation letter from the Covenantors, and also reviewed the overall compliance by the Covenantors with the Deed of Non-Competition; and

(c) A special committee, comprising of Mr. Wong Wai Ming (the Chief Financial Officer of the Company) and Mr. Yang Qingyun (the executive director of the Company), had been monitoring and ensuring the compliance with the Deed of Non-Competition during the year ended 31 December 2016 by way of communicating and enquiring with each of the Covenantors on a regular (at least monthly) basis as to whether each of the Covenantors engages, participates or holds any right or interest in or otherwise be involved in the Restricted Business.

The Company has followed and complied with the abovementioned procedures during the year ended 31 December 2016, and therefore is of the view that the Deed of Non-Competition had been duly complied with by the Covenantors throughout the year of 2016.

Social Responsibilities

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

Directors' Report

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

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

Issuance of Debentures

On 4 January 2016 and 29 January 2016, to enrich the operational requirements of the Group and for future mergers and acquisitions (target(s) of which has not been identified), the Company issued unsecured corporate bonds with principal value of HK$9,000,000 and HK$142,300,000 respectively. The corporate bonds bear interest at 6% and 7% per annum and fall due on 3 January 2019 and 28 January 2019 respectively.

Liability Insurance and Indemnity

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

Equity-linked Agreements

For the year ended 31 December 2016, the Company did not enter into any equity-linked agreement.

Connected Transactions

During the year ended 31 December 2016, the Group did not conduct any non-exempt connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

Directors' Report

Share Option Scheme

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

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

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

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

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

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

Directors' Report

According to the Share Option Scheme, the maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme of our Company shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of Shares in issue on the Listing Date (not taking into account any Shares which may be allotted and issued under the Over-allotment Option) (i.e. 100,000,000 shares), representing approximately 9.85% of the total issued shares of the Company at the date of this report.

On 20 May 2016 and 20 October 2016, the Company has granted to certain eligible persons (the "Grantees"), a total of 79,800,000 share options and 20,200,000 shares options respectively. None of the Grantees is a director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined in the Listing Rules). Details of the grant of the share options are set out in the announcement dated 20 May 2016 and 20 October 2016 respectively.

During the reporting period, none of the directors, chief executive or substantial shareholder of the Company, or any of their respective associates held share options of the Company.

During the reporting period, the relevant interests and details of movements in the share options granted by the Company is as follows:

				Changes during the period				
	Date of grant	Exercise period	Balance as at 1 January 2016	Grant during the period	Exercised during the period	Lapsed during the period	Balance as at 31 December 2016	Exercise price per share
Eligible persons, being certain employee of the Company and its subsidiaries	20 May 2016	20 May 2016 to 19 May 2019	–	79,800,000	–	–	79,800,000	HK$2.50
Eligible persons, being consultants of the Company and its subsidiaries	20 October 2016	20 October 2016 to 19 October 2019	–	20,200,000	20,200,000	–	–	HK$0.40

Pre-emptive Rights

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

Directors' Report

Purchase, Sale or Redemption of Securities of the Company

For the year ended 31 December 2016, the Company repurchased its own shares on the Hong Kong Stock Exchange as follows:

Date of repurchase	Number of Shares repurchased	Highest price paid (HK$)	Lowest price paid (HK$)	Repurchase price (HK$)
2016/01/29	40,000	1.78	1.77	70,900
2016/02/01	3,500,000	1.82	1.79	6,334,300
2016/02/02	1,490,000	1.81	1.79	2,682,000
2016/02/03	2,000,000	1.81	1.79	3,595,200
2016/02/04	2,000,000	1.83	1.82	3,650,000
2016/02/05	1,800,000	1.88	1.85	3,364,380
2016/02/11	800,000	1.89	1.86	1,496,720
2016/02/12	1,000,000	1.89	1.87	1,886,800
2016/02/15	500,000	1.89	1.89	945,000
2016/02/18	100,000	1.80	1.78	179,620
2016/02/19	100,000	1.80	1.79	179,220
2016/02/22	86,000	1.81	1.80	154,920
2016/02/23	78,000	1.83	1.81	142,178
2016/02/24	100,000	1.87	1.84	185,340
2016/02/25	100,000	1.86	1.83	183,960

Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities for the year ended 31 December 2016.

Public Float

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

Audit Committee

The Audit Committee has reviewed the accounting policies, accounting standards and practices adopted by the Group, and review the consolidated financial statements and results of the Group for the year ended 31 December 2016.

Directors' Report

Auditors

The consolidated financial statements of the Group for the year ended 31 December 2016 have been audited by Messrs. Elite Partners CPA Limited, who will retire and, being eligible, will offer themselves for reappointment at the forthcoming annual general meeting.

For and on behalf of the Board

Zheng Zhihong
Chairman

Zhangzhou, 31 March 2017

Historic Milestones

1997

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

2002

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

2004

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

2006

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

2005

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

2008

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

2007

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

2010

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

2009

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

2011

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

2012

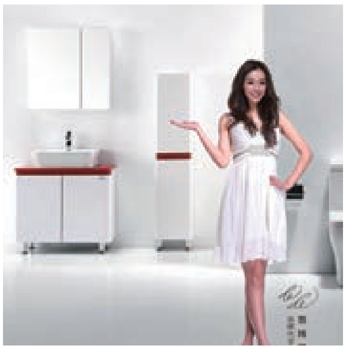
- Bolina Holding Co., Ltd. successfully listed in Hong Kong stock exchange main board.
- Appointing singer Christine Fan to be its brand ambassador.
- Receiving the "2012 Hong Kong Outstanding Enterprise Award".
- Being named "2012 Top 10 Most Trusted Sanitary Brand by Customers", "2012 Top 10 Green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

2013

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

2014

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



2015

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

2016

- In February 2016, Zhangzhou Wanjia Ceramic Industry Co., Ltd. was awarded the Longwen District 2015 *Contribution Award for Economic Construction and the Biggest Taxpayer* title.
- In April 2016, Zhangzhou Wanhui Sanitary Ware Co., Ltd. was awarded *Zhangzhou City 2015 Annual Tax Credit Level A* for the first time.
- On 9 April 2016, Bolina was awarded the *Top Ten Brands of Sanitary Ware* from the 2016 China Building Ceramics & Sanitary Ware Top Brands.
- On 27 October 2016, Bolina was awarded the *Top Ten Overall Sanitary Ware Leader* from the Top 100 China Enterprises of Kitchen & Bath.
- On 27 October 2016, the Kitchen and Bath Engineering Committee of the China Building Decoration Association awarded Wanhui Company the *Vice President of Organizations* award.
- On 4 February 2017, Zhangzhou Wanjia Ceramic Industry Co., Ltd. was awarded the Longwen District 2016 *Contribution Award for Economic Construction* and *Biggest Taxpayer*.

Independent Auditor's Report

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

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

OPINION

We have audited the consolidated financial statements of Bolina Holding Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 72 to 149, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for 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 MATTERS (continued)

Key audit matter	How the matter was addressed in our audit
Impairment assessment of trade receivables	
The Group generally provided credit term of 90 – 180 days to its customers for the sales of goods. As at 31 December 2016, the Group had trade receivable (before impairment) of RMB133,885,000. For the year ended 31 December 2016, the Group recognised impairment losses on trade receivables of approximately RMB10,380,000 which had been outstanding for over 180 days, representing approximately 8% of the total trade receivables as at 31 December 2016. Details of the Group's trade receivables has been as set out in note 19 to the consolidated financial statements. We had identified the impairment assessment of trade receivables as a key audit matter because significant management judgment was required to estimate the amount of impairment of trade receivables, including the credit history of customers, subsequent settlements and aging analysis of trade receivables.	Our major audit procedures in relation to the management's impairment assessment on trade receivables included the following: – We discussed with management of the Company the impairment policy, including the basis used in estimation of the recoverable amount of the trade receivables. – We obtained from the management of the Company the aging analysis of the trade receivables and assessed the recoverability of trade receivables and sufficiency of impairment losses with reference to the credit history of the customers and subsequent settlements. We tested the aging analysis of the trade receivables on a sample basis to the source downwards, for instance, sales invoices.

Independent Auditor's Report

KEY AUDIT MATTERS (continued)

Key audit matter	How the matter was addressed in our audit
Inventory valuation As at 31 December 2016, the Group had inventories of approximately RMB234,758,000 net of provision, with details being disclosed in note 18 to the consolidated financial statements. We had identified inventory valuation as a key audit matter as impairment on inventories was subject to significant management judgment and the amount involved was significant.	Our major audit procedures relating to the inventory valuation included the following: – We obtained and analysed the aging of inventories and discussed with the management of the Company whether, and if so, how much impairment should be required for slow-moving inventories. – We performed on a sample basis a comparison between costs of inventories (including estimated costs to complete) and the estimated net realisable value of the inventories. – We checked on a sample basis the net realisable values of the inventories. – We checked on a sample basis the costs of inventories and the estimated costs to complete.

Independent Auditor's Report

KEY AUDIT MATTERS (continued)

Key audit matter	How the matter was addressed in our audit
Disposal of business	
As disclosed in note 33 to the consolidated financial statements on 11 July 2016, the Group disposed of its 70% equity interest in Fujian Yudeyuan Property Co., Ltd ("Yudeyuan") as well as sale loan to Zhangzhou Jiaye Trading Co., Ltd for a cash consideration of RMB285,000,000. The Group had recognised a gain on disposal of RMB3,835,000 for the disposal of Yudeyuan. Yudeyuan was a non-wholly-owned subsidiary of the Group before the disposal which had been. principally engaged in real estate development and management. We considered disposal of business as key audit matter because the amount involved in the disposal of business was significant.	Our major audit procedures relating to the disposal of business included the following: – We obtained and reviewed the sales and purchases agreement and the relevant documents relating to legal title transfer of the 70% equity interest in Yudeyuan and its subsidiaries. – We recalculated the gain on disposal. We discussed with the management and independent valuer engaged by the Company and assessed the methodology and assumption applied on determining the market value and consideration. – We evaluate the competency and capabilities of the independent valuer in relation to their qualification and experiences.

OTHER INFORMATION

The directors 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.

Independent Auditor's Report

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 requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors 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. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

Independent Auditor's Report

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

- 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.

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 partner on the audit resulting in the independent auditor's report is Yip Kai Yin with Practising Certificate number P05131.

Elite Partners CPA Limited
Certified Public Accountants

10/F., 8 Observatory Road,
Tsim Sha Tsui, Kowloon,
Hong Kong
31 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	4(a)	**359,977**	716,039
Cost of sales	5(b)	**(264,521)**	(430,547)
Gross profit		**95,456**	285,492
Other income and gains, net	4(b)	**26,703**	11,583
Selling and distribution expenses		**(320,201)**	(99,838)
Administrative expenses		**(109,037)**	(65,304)
(Loss)/profit from operations		**(307,079)**	131,933
Finance costs	6	**(35,934)**	(20,020)
(Loss)/profit before tax	5	**(343,013)**	111,913
Income tax expense	7	**(6,588)**	(39,585)
(Loss)/profit for the year		**(349,601)**	72,328
Attributable to:			
Owners of the Company		**(349,601)**	74,087
Non-controlling interests		**–**	(1,759)
		(349,601)	72,328
(Loss)/earnings per share attributable to ordinary equity holders of the Company			
Basic – For (loss)/profit for the year	10	**RMB(35) cents**	RMB7 cents
Diluted – For (loss)/profit for the year	10	**RMB(35) cents**	RMB7 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(349,601)**	72,328
OTHER COMPREHENSIVE EXPENSE		
Other comprehensive expense to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(4,206)**	(4,645)
Net other comprehensive expense to be reclassified to profit or loss in subsequent periods	**(4,206)**	(4,645)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX	**(4,206)**	(4,645)
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE YEAR	**(353,807)**	67,683
Attributable to:		
Owners of the Company	**(353,807)**	69,442
Non-controlling interests	**–**	(1,759)
	(353,807)	67,683

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**197,449**	196,247
Properties under development	12	**–**	425,425
Investment properties	13	**–**	291,442
Land use right	14	**11,236**	11,533
Goodwill	15	**–**	35,915
Intangible assets	16	**128**	215
Available-for-sale investments	17	**2,500**	2,500
Prepayments for properties under development		**–**	6,059
Deferred tax assets	27(b)	**4,341**	6,860
Pledged bank balances	21	**–**	91,798
Total non-current assets		**215,654**	1,067,994
CURRENT ASSETS			
Inventories	18	**234,758**	104,749
Trade receivables	19	**122,338**	138,763
Prepayments, deposits and other receivables	20	**313,221**	50,590
Pledged bank balances	21	**23,412**	24,246
Cash and cash equivalents	21	**520,146**	909,894
Total current assets		**1,213,875**	1,228,242
CURRENT LIABILITIES			
Trade and bills payables	22	**163,141**	255,696
Other payables and accruals	23	**103,776**	289,410
Derivative financial instruments	24	**–**	2,164
Amount due to the shareholder	39(b)	**2,122**	173
Interest-bearing bank and other borrowings	25	**170,700**	442,367
Income tax payable	27(a)	**2,531**	3,320
Total current liabilities		**442,270**	993,130
NET CURRENT ASSETS		**771,605**	235,112
TOTAL ASSETS LESS CURRENT LIABILITIES		**987,259**	1,303,106

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27(b)	**25,914**	76,653
Corporate bonds	28	**257,380**	123,466
Total non-current liabilities		**283,294**	200,119
Net assets		**703,965**	1,102,987
EQUITY			
Equity attributable to owners of the company			
Share capital	29	**8,287**	8,226
Reserves	30	**695,678**	1,038,105
		703,965	1,046,331
Non-controlling interests		**–**	56,656
Total equity		**703,965**	1,102,987

The consolidated financial statement on pages 72 to 149 were approved and authorised for issue by the board of directors on 31 March 2017 and are signed on its behalf by:

Zheng Zhihong	**Yang Qingyun**
Director	*Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

		Equity attributable to owners of the Company												
	Notes	Share capital RMB'000 note 29	Share premium RMB'000	Capital redemption reserve RMB'000	Discretionary reserve fund RMB'000 note 30(i)	Statutory reserve RMB'000 note 30(ii)	Capital reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000 note 30(iii)	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015		8,226	347,615	48	21,894	42,866	101,081	–	4,779	450,380	23,877	1,000,766	–	1,000,766
Profit for the year		–	–	–	–	–	–	–	–	74,087	–	74,087	(1,759)	72,328
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(4,645)	–	–	(4,645)	–	(4,645)
Total comprehensive income for the year		–	–	–	–	–	–	–	(4,645)	74,087	–	69,442	(1,759)	67,683
Acquisition of a subsidiary	32	–	–	–	–	–	–	–	–	–	–	–	58,415	58,415
Transfer from retained profits		–	–	–	–	4,325	–	–	–	(4,325)	–	–	–	–
Proposed final 2014 dividend		–	–	–	–	–	–	–	–	–	(23,877)	(23,877)	–	(23,877)
At 31 December 2015 and 1 January 2016		**8,226**	**347,615**	**48**	**21,894**	**47,191**	**101,081**	**-**	**134**	**520,142**	**-**	**1,046,331**	**56,656**	**1,102,987**
Loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(348,783)**	**-**	**(348,783)**	**(818)**	**(349,601)**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,206)**	**-**	**-**	**(4,206)**	**-**	**(4,206)**
Total comprehensive expenses for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,206)**	**(348,783)**	**-**	**(352,989)**	**(818)**	**(353,807)**
Disposal of a subsidiary	33	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(55,838)**	**(55,838)**
Repurchase of shares		**(116)**	**(21,136)**	**116**	**-**	**-**	**-**	**-**	**-**	**(116)**	**-**	**(21,252)**	**-**	**(21,252)**
Recognition of equity-settled share-based payment		**-**	**-**	**-**	**-**	**-**	**-**	**24,814**	**-**	**-**	**-**	**24,814**	**-**	**24,814**
Issue of shares upon exercise of share options		**177**	**11,148**	**-**	**-**	**-**	**-**	**(4,264)**	**-**	**-**	**-**	**7,061**	**-**	**7,061**
At 31 December 2016		**8,287**	**337,627**	**164**	**21,894**	**47,191**	**101,081**	**20,550**	**(4,072)**	**171,243**	**-**	**703,965**	**-**	**703,965**

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(343,013)**	111,913
Adjustments for:			
Depreciation of property, plant and equipment	11	**16,972**	17,332
Amortisation of land use right	14	**297**	297
Amortisation of intangible assets	16	**87**	87
Write-down of inventories to net realisable value	5(c)	**260**	1,774
Reversal of impairment of trade receivables	4(b)	**(170)**	(382)
Interest income	4(b)	**(10,478)**	(3,452)
(Gain)/loss on disposal of property, plant and equipment	4(b)	**(69)**	240
Fair value gains on derivative instruments	4(b)	**(2,214)**	(441)
Finance costs	6	**35,934**	20,020
Impairment of trade receivables	5(c)	**10,380**	104
Impairment of other receivables	5(c)	**–**	4,150
Recognition of equity-settled share based payment		**24,814**	–
Gain on disposal of a subsidiary	4(b)	**(3,835)**	–
Operating cash flows before movements in working capital change		**(271,035)**	151,642
Decrease/(increase) in trade receivables		**9,419**	(17,762)
Increase in prepayments, deposits and other receivables		**(340,472)**	(19,234)
Increase in inventories		**(130,269)**	(7,710)
Increase/(decrease) in trade payables		**12,471**	(41,108)
Increase in other payables and accruals		**126,303**	91,810
Increase in properties under development		**(3,580)**	(27,399)
Increase in prepayments for properties under development		**–**	(4,739)
Cash (used in)/generated from operations		**(597,163)**	125,500
Tax paid	27(a)	**(4,463)**	(46,041)
Net cash (used in)/generated from operating activities		**(601,626)**	79,459

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(12,339)**	(4,548)
Proceeds from disposal of property, plant and equipment	**3,968**	150
Net cash effect of disposal of a subsidiary	**278,025**	–
Purchase of investment properties	**(6,476)**	(19,088)
Net cash effect of acquisition of a subsidiary	**–**	(170,175)
Interest received	**10,478**	3,452
Net cash generated from/(used in) investing activities	**273,656**	(190,209)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**(21,252)**	–
Proceeds from bank loans and other borrowings	**206,266**	316,360
Repayment of bank loans and other borrowings	**(441,204)**	(246,708)
Advances to third parties	**–**	(41,000)
Collection of advances to third parties	**–**	41,000
Net proceeds from corporate bonds	**121,983**	123,466
Decrease in pledged bank balances	**90,832**	15,867
Repayment of advances from a related party	**–**	(116,370)
Advance from/(repayment to) the shareholder	**1,949**	(8,092)
Dividends paid	**–**	(23,877)
Interest paid	**(28,706)**	(19,806)
Issue of shares upon exercise of share options	**7,061**	–
Net cash (used in)/generated from financing activities	**(63,071)**	40,840
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(391,041)**	(69,910)
Cash and cash equivalents at beginning of year	**909,894**	969,208
Effect of foreign exchange rate changes, net	**1,293**	10,596
CASH AND CASH EQUIVALENTS AT END OF YEAR	**520,146**	909,894

Notes to Consolidated Financial Statements

31 December 2016

1. CORPORATE INFORMATION

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

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

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the manufacture and sale of sanitary ware products.

2.1 BASIS OF PREPARATION

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

These consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments which have been measured at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

Notes to Consolidated Financial Statements

31 December 2016

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 to 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.

Notes to Consolidated Financial Statements

31 December 2016

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

c) Amendments to HKAS 1 Disclosure Initiative (continued)

As required by the amendments, the share of other comprehensive income of associates and joint ventures had been separately presented and had been separated into (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 not resulted in any impact on the financial performance or financial position of the Group.

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.

Notes to Consolidated Financial Statements

31 December 2016

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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 summarised 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.

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 IMPACT OF 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.

Notes to Consolidated Financial Statements

31 December 2016

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

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.

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.

The Group is still in the process of assessing the impact of HKFRS 9. The directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

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

HKFRS 15 Revenue from Contracts with Customers and the clarifications to HKFRS 15

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group is still in the process of assessing the impact of HKFRS 15. The directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

Notes to Consolidated Financial Statements

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

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.

The Group is in the process of assessing the impact of HKFRS 16. The directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries (continued)

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

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

Business combinations and goodwill

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

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

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

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

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

Fair value measurement

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

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

Notes to Consolidated Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Notes to Consolidated Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Notes to Consolidated Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

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

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

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

Investment properties

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

Notes to Consolidated Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

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

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

Properties under development

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

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

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

Intangible assets (other than goodwill)

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

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Software	5 years
Brand name	10 years

Research and development costs

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

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

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

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

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

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

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

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

Notes to Consolidated Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)

The Group's financial liabilities include corporate bonds, trade and bills payables, other payables and accruals, derivative financial instruments and interest-bearing bank, other borrowings and amount due to shareholder.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

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

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

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31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Revenue recognition

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

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

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

Other employee benefits

Pension scheme

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

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

Share-based payment transaction

Share-based payments

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transaction (continued)

Share-based payments (continued)

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements. The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where nonvesting 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

Foreign currencies

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

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

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

Notes to Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

Operating lease commitments

Group as lessee

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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.

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2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Useful lives of property, plant and equipment

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

Net realisable value of inventories

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

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

For impairment assessment of trade receivables, when there is objective evidence of impairment loss, the Group takes into consideration on the estimation of future cash flows based on credit history of customers and subsequent settlements.

Current income tax and deferred tax

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

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3. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of sanitary ware. For management purpose, the Group operates in one business unit based on its products, and has one reportable segment which is the manufacture and sale of sanitary ware.

No operating segments have been aggregated to form the above reportable operation segment.

Geographical information

The following tables present the Group's geographical information in terms of revenue for the years ended 31 December 2016 and 2015, and non-current assets as at 31 December 2016 and 2015.

(a) Revenue from external customers

	2016	2015
	RMB'000	RMB'000
America	**251,632**	312,986
Mainland China	**87,561**	385,883
Europe	**15,968**	13,734
Asia (excluding Mainland China)	**4,646**	3,436
Others	**170**	–
	359,977	716,039

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

(b) Non-current assets

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

Information about major customers

Revenue from two of the Group's customers, amounting to RMB145,223,000 and RMB69,533,000 (2015: two customers amounting to RMB191,016,000 and RMB80,129,000) individually accounted for over 10% of the Group's total revenue.

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4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's revenue, represents the net invoiced value of goods sold, after netting off sales rebates and sales returns for the years ended 31 December 2016 and 2015.

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

(a) Revenue

	2016 RMB'000	2015 RMB'000
Revenue from the sale of sanitary ware	**359,977**	716,039

(b) Other income and gains, net

	2016 RMB'000	2015 RMB'000
Other income		
Government grants*	**288**	1,370
Bank interest income	**10,478**	3,452
Foreign exchange differences, net	**6,653**	5,097
Others	**2,996**	1,081
	20,415	11,000
Gains/(losses), net		
Fair value gains, net:		
Derivative instruments	**2,214**	441
Gain/(Loss) on disposal of items of property, plant and equipment	**69**	(240)
Gain on disposal of a subsidiary	**3,835**	–
Reversal of impairment of trade receivables	**170**	382
	6,288	583
Other income and gains, net	**26,703**	11,583

* *Various government grants have been received for conducting export sales and processing trade within Fujian Province, Mainland China. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2016.*

Notes to Consolidated Financial Statements

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5. (LOSS)/PROFIT BEFORE TAX

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

		2016 RMB'000	2015 RMB'000
(a)	**Employee benefit expense (including directors' and chief executive's remuneration (note 8))**		
	Wages and salaries	**79,564**	100,792
	Pension scheme contributions, social welfare and other welfare	**10,821**	7,145
	Equity-settled share based payments for employees	**20,550**	–
		110,935	107,937
(b)	**Cost of sales**		
	Cost of inventories sold	**153,061**	311,680
	Others	**111,460**	118,867
		264,521	430,547
(c)	**Other items**		
	Depreciation of property, plant and equipment*	**16,972**	17,332
	Amortisation of land use right	**297**	297
	Amortisation of intangible assets	**87**	87
	Operating lease expenses*	**12,583**	24,311
	Advertisement and promotion expenses	**90,003**	51,597
	Logistics expenses	**10,567**	12,502
	Research and development expenses*	**15,980**	15,980
	Provision for impairment of trade receivables**	**10,380**	104
	Provision for impairment of other receivables***	**–**	4,150
	Write-down of inventories to net realisable value***	**260**	1,774
	Auditors' remuneration	**1,641**	2,284
	Subsidise to customers	**156,592**	–
	Equity-settled share based payments for consultants	**4,264**	–

* *The depreciation of property, plant and equipment of RMB10,904,000 (2015: RMB10,814,000), the operating lease expenses of RMB10,644,000 (2015: RMB14,049,000) and the research and development expenses of RMB3,604,000 (2015: RMB9,800,000) are included in "Cost of sales" in the consolidated statement of profit or loss.*

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

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

Notes to Consolidated Financial Statements

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6. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest expense on bank borrowings wholly repayable within five years	**13,930**	19,078
Interest expense on other borrowings wholly repayable within five years	**671**	728
Interest expenses on corporate bonds wholly repayable within five years	**20,547**	–
Total interest expenses	**35,148**	19,806
Realised/unrealised loss on interest rate swaps	**786**	214
	35,934	20,020

7. INCOME TAX EXPENSE

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

	2016 RMB'000	2015 RMB'000
Current – Mainland China Enterprise Income Tax	**3,674**	38,782
Deferred tax (note 27(b))	**2,914**	803
	6,588	39,585

Subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% during the year ended 31 December 2016 (2015: 16.5%). No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2016 (2015: Nil).

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

Notes to Consolidated Financial Statements

31 December 2016

7. INCOME TAX EXPENSE (continued)

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

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

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

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

Pursuant to the Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% (2015: 5%). On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of Mainland China from retained earnings as at 31 December 2007 are exempted from the withholding tax.

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

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

	2016 **RMB'000**	2015 RMB'000
(Loss)/profit before tax	**(343,013)**	111,913
Tax at the statutory tax rate (25%)	**(85,753)**	27,978
Lower tax rates for specific provinces or enacted by local authorities	**13,583**	(39)
Adjustments in respect of current tax of previous year	**(87)**	1,655
Expenses not deductible for tax purposes	**75,848**	3,065
Tax loss not recognised	**2,997**	6,526
Effect of withholding tax at 5% (2015: 5%) on the distributable profits of the Group's subsidiaries in Mainland China	**–**	400
Tax charge	**6,588**	39,585

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2016 RMB'000	2015 RMB'000
Fees	**5,854**	8,965
Other emoluments:		
Salaries, allowances and benefits in kind	**792**	776
Discretionary bonuses	**106**	64
Pension scheme contributions	**33**	29
	931	869
	6,785	9,834

(a) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
Mr. TONG Jifeng (note i)	**69**	65
Mr. LIN Shimao (note ii)	**29**	65
Prof. SO Wai-man, Raymond (note iii)	**97**	173
Mr. JIANG Guoxiang (note iv)	**38**	–
Mr. WONG Yuk Lun, Alan (note v)	**75**	–
	308	303

Notes:

(i) Mr. Tong Jifeng has resigned as independent non-executive Director since 27 March 2017.

(ii) Mr. Lin Shimao has resigned as independent non-executive Director since 30 June 2016.

(iii) Mr. So Wai-man, Raymond has resigned as independent non-executive Director since 7 July 2016.

(iv) Mr. Jiang Guoxiang has been appointed as independent non-executive Director since 14 June 2016.

(v) Mr. Wong Yuk Lun, Alan has been appointed as independent non-executive Director since 7 July 2016 and resigned on 27 March 2017.

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

(a) Independent non-executive directors (continued)

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

(b) Executive directors and the chief executive

	2016				
	Fees	Salaries, allowances and benefits in kind (note i)	Discretionary bonuses	Contributions to defined contribution retirement schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director and chief executive					
Mr. XIAO Zhiyong (note ii)	2,167	397	53	9	2,626
Executive directors					
Ms. YE Xiaohong (note iii)	1,127	122	17	8	1,274
Mr. YANG Qingyun	1,127	122	17	8	1,274
Mr. ZHANG Ming (note iv)	–	25	–	–	25
Mr. ZHENG Zhihong (note v)	–	5	–	–	5
Mr. LU Jianqing	1,127	122	17	8	1,274
	5,548	793	104	33	6,478

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

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

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

Notes:

(i) Salaries, allowance and benefit 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.

(ii) Mr. Xiao Zhiyong resigned as executive director since 17 February 2017.

(iii) Ms. Ye Xiaohong resigned as executive director since 27 March 2017.

(iv) Mr. Zhang Ming has been appointed as executive director since 2 October 2016.

(v) Mr. Zheng Zhihong has been appointed as executive director since 2 December 2016.

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2016 included three directors and the chief executive (2015: three directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2015: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,262**	529
Pension scheme contributions	**–**	7
	1,262	536

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

	Number of employees	
	2016	2015
HK$500,001 to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	–

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

The calculation of the basic (loss)/earnings per share amounts for the year ended 31 December 2016 is based on the loss for the year attributable to the ordinary equity holders of the Company of RMB349,601,000 (2015: profit for the year attributable to the ordinary equity holders of the Company of RMB74,087,000) and the weighted average number of ordinary shares of 1,000,156,000 (2015: 1,008,866,000) during the year.

For the year ended 31 December 2016, the computation of diluted loss per share does not assume the conversion of the Company's share options outstanding since their exercise would result in a decrease in loss per share.

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

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11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2015	18,749	122,637	92,723	6,050	11,951	35,885	287,995
Additions	–	1,445	1,398	82	–	1,623	4,548
Additions from acquisition	–	–	–	142	450	–	592
Disposals	–	–	–	–	(2,025)	–	(2,025)
At 31 December 2015	18,749	124,082	94,121	6,274	10,376	37,508	291,110
Accumulated depreciation:							
At 1 January 2015	14,771	24,714	30,131	3,246	6,304	–	79,166
Depreciation provided during the year	3,070	5,659	6,247	811	1,545	–	17,332
Disposals	–	–	–	–	(1,635)	–	(1,635)
At 31 December 2015	17,841	30,373	36,378	4,057	6,214	–	94,863
Net carrying amount:							
At 31 December 2015	908	93,709	57,743	2,217	4,162	37,508	196,247
Cost:							
At 1 January 2016	**18,749**	**124,082**	**94,121**	**6,274**	**10,376**	**37,508**	**291,110**
Additions	**–**	**2,338**	**12,245**	**177**	**391**	**7,424**	**22,575**
Disposal from subsidiary	**–**	**–**	**–**	**(205)**	**(450)**	**–**	**(655)**
Disposals	**–**	**–**	**–**	**(348)**	**(3,377)**	**(2,781)**	**(6,506)**
At 31 December 2016	**18,749**	**126,420**	**106,366**	**5,898**	**6,940**	**42,151**	**306,524**
Accumulated depreciation:							
At 1 January 2016	**17,841**	**30,373**	**36,378**	**4,057**	**6,214**	**–**	**94,863**
Depreciation provided during the year	**385**	**5,936**	**8,915**	**558**	**1,178**	**–**	**16,972**
Disposal from subsidiary	**–**	**–**	**–**	**(48)**	**(152)**	**–**	**(200)**
Disposals	**–**	**–**	**–**	**(189)**	**(2,371)**	**–**	**(2,560)**
At 31 December 2016	**18,226**	**36,309**	**45,293**	**4,378**	**4,869**	**–**	**109,075**
Net carrying amount:							
At 31 December 2016	**523**	**90,111**	**61,073**	**1,520**	**2,071**	**42,151**	**197,449**

At 31 December 2016, certain of the Group's buildings with an aggregate net carrying amount of approximately RMB58,640,000 (2015: RMB61,969,000) were pledged as security for the Group's bank borrowings (note 25(a)(ii)).

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12. PROPERTIES UNDER DEVELOPMENT

	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**425,425**	–
Acquisition of a subsidiary	**–**	398,026
Addition	**9,276**	27,399
Disposal of a subsidiary	**(434,701)**	–
At the end of the year	**–**	425,425

Properties under development are located in Mainland China.

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

	2016	2015
	RMB'000	RMB'000
Leases of over 40 years	**–**	311,131
Leases of between 20 and 40 years	**–**	114,294
	–	425,425

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13. INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
At the beginning of the year	**291,442**	–
Acquisition of a subsidiary	**–**	272,354
Addition	**6,476**	19,088
Disposal of a subsidiary	**(297,918)**	–
At the end of the year	**–**	291,442

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

	2016 RMB'000	2015 RMB'000
Leases of between 10 and 50 years	**–**	291,442

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

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

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14. LAND USE RIGHT

	2016 **RMB'000**	2015 RMB'000
Cost:		
At beginning and end of the year	**14,421**	14,421
Amortisation:		
At beginning of the year	**2,888**	2,591
Charge for the year	**297**	297
At end of the year	**3,185**	2,888
Net carrying amount:		
At end of the year	**11,236**	11,533

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

At 31 December 2016, certain of the Group's land use right with an aggregate net book value of approximately RMB11,236,000 (2015: RMB11,533,000) were pledged as security for the Group's bank borrowings (note 25(a)(i)).

15. GOODWILL

	2016 **RMB'000**	2015 RMB' 000
At beginning of the year	**35,915**	–
Acquisition of a subsidiary	**–**	35,915
Disposal of a subsidiary	**(35,915)**	–
At end of the year	**–**	35,915

During the year ended 31 December 2015, the Group acquired 70% of issued share capital of Fujian Yudeyuan Property Co., Ltd. The Group recognised goodwill of approximately RMB35,915,000 upon the completion of the acquisition.

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

During the year ended 31 December 2016, goodwill amounting to RMB35,915,000 was disposed as a result of disposal of Fujian Yudeyuan.

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16. INTANGIBLE ASSETS

	Brand name RMB'000	Software RMB'000	Total RMB'000
Cost:			
At 1 January 2015 and 31 December 2015	320	363	683
Accumulated amortisation:			
At 1 January 2015	224	157	381
Amortisation provided during the year	32	55	87
At 31 December 2015	256	212	468
Net carrying amount:			
At 31 December 2015	64	151	215
Cost:			
At 1 January 2016 and 31 December 2016	**320**	**363**	**683**
Accumulated amortisation:			
At 1 January 2016	**256**	**212**	**468**
Amortisation provided during the year	**32**	**55**	**87**
At 31 December 2016	**288**	**267**	**555**
Net carrying amount:			
At 31 December 2016	**32**	**96**	**128**

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17. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Unlisted equity investments, at cost:	**2,500**	2,500

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

18. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**6,933**	6,819
Accessories	**10,508**	7,567
Work in progress	**56,449**	22,671
Finished goods	**159,281**	65,438
Wrappage	**1,587**	2,254
	234,758	104,749

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19. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**133,885**	140,100
Impairment	**(11,547)**	(1,337)
	122,338	138,763

The Group's trading terms with its overseas customers are mainly on credit and advance payment is normally required for domestic customers. The credit period for overseas customers is generally one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, except for two major customers set out in note 3, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**87,884**	84,129
More than 3 months but less than 1 year	**34,454**	48,317
Over 1 year	**–**	6,317
	122,338	138,763

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**98,974**	113,977
Less than 3 months past due	**23,364**	18,417
3 to 12 months past due	**–**	6,369
	122,338	138,763

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19. TRADE RECEIVABLES (continued)

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

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

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

	2016	2015
	RMB'000	RMB'000
At beginning of the year	**1,337**	1,615
Impairment losses recognised	**10,380**	104
Reversal of impairment	**(170)**	(382)
At end of the year	**11,547**	1,337

Included in the above provision for impairment of trade receivables as at 31 December 2016 is a provision for individually impaired trade receivables of RMB11,547,000 (2015: RMB1,337,000).

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Prepayments and deposits to suppliers	**90,003**	10,298
Deposits and prepayments to chain supermarkets	**1,344**	2,957
Prepayment for tax	**–**	22,075
Deposits and prepayments to distribution channels (note)	**199,298**	–
Others	**26,726**	19,410
	317,371	54,740
Impairment on other receivables	**(4,150)**	(4,150)
At the end of the year	**313,221**	50,590

Note: Deposit and prepayments to distribution channels represents the marketing promotion expenses related to retails shops owned by distributors, to enhance the distribution channels.

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	2016 RMB'000	2015 RMB'000
At beginning of the year	**4,150**	–
Impairment loss recognised	**–**	4,150
At end of the year	**4,150**	4,150

Included in the above impairment of other receivables for the year are individually impaired other receivables with a balance of approximately RMB4,150,000 (2015: RMB4,150,000) which have been considered not recoverable. The impairment recognised represents the difference between the carrying amount of these other receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

21. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**520,146**	909,894
Time deposits	**23,412**	116,044
	543,558	1,025,938
Less: Pledged bank balances		
Long-term bank deposits	**–**	(91,798)
Short-term bank deposits	**(23,412)**	(24,246)
Cash and cash equivalents	**520,146**	909,894

At 31 December 2016, the cash and bank balances of the Group denominated in RMB amounted to RMB535,854,000 (2015: RMB840,879,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorisation to conduct foreign exchange business.

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

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22. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payable	**116,286**	233,696
Bills payable	**46,855**	22,000
	163,141	255,696

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**80,775**	167,669
3 to 6 months	**62,100**	25,419
6 to 12 months	**2,900**	43,645
Over 12 months	**17,366**	18,963
	163,141	255,696

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

23. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Payables for purchase of items of property, plant and equipment	**20,121**	9,932
Advances received	**14,237**	157,818
Staff payroll and welfare payables	**31,188**	23,743
Payables for sales rebates	**315**	2,151
Other taxes payable	**481**	3,476
Rental payable	**–**	20,609
Others	**37,434**	71,681
	103,776	289,410

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24. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 RMB'000	2015 RMB'000
Liabilities		
Forward currency contracts	–	426
Interest rate swaps	–	1,738
	–	2,164
Less: Non-current Liabilities	–	–
Current Liabilities	–	2,164

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank borrowings	4-10	2017	170,700	3 – 8	2016	363,749
Other borrowings	–	–	–	3 – 18	2016	78,618
			170,700			442,367

Interest-bearing bank borrowings and other borrowings represent:

	2016 RMB'000	2015 RMB'000
– Secured (note (a))	134,200	309,133
– Guaranteed (note (b))	36,500	70,780
– Unsecured	–	62,454
	170,700	442,367

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

Notes:

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

(i) mortgages over the Group's land use right situated in Mainland China, which had an aggregate carrying value of approximately RMB11,236,000 as at 31 December 2016 (2015: RMB11,533,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB58,640,000 as at 31 December 2016 (2015: RMB61,969,000);

(iii) mortgages over the Group's forward letters of credit which amounted to RMBnil as at 31 December 2016 (2015: RMB30,145,000);

(iv) mortgages over the Group's pledged bank balances which amounted to RMB23,412,000 as at 31 December 2016 (2015: RMB115,498,000); and

(v) mortgages over the Group's properties under development which amounted to RMBnil as at 31 December 2016 (2015: RMB141,430,000).

(b) Certain of the Group's bank borrowings which amounted to RMB26,500,000 as at 31 December 2016 (2015: RMB5,000,000) were guaranteed by the shareholder. Certain of the Group's bank borrowings which amounted to RMB10,000,000 as at 31 December 2016 (2015: RMB14,000,000) were guaranteed by certain third parties.

26. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the PRC state regulations, the employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. During the year, the Mainland China subsidiaries were required to make contributions to the local social security bureau at 10% to 22% (2015: 10% to 22%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

At 31 December 2016 and 2015, the Group had no significant obligation apart from the contribution as stated above.

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27. INCOME TAX PAYABLE AND DEFERRED TAX

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

	2016 **RMB'000**	2015 RMB'000
At beginning of the year	**3,320**	9,405
Provision for current tax for the year	**3,674**	38,782
Acquisition of a subsidiary	**–**	1,174
Current tax paid	**(4,463)**	(46,041)
At end of the year	**2,531**	3,320

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

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

Deferred tax assets:

	Accruals RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2015	5,690	1,102	6,792
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 7)	478	(410)	68
At 31 December 2015 and at 1 January 2016	**6,168**	**692**	**6,860**
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 7)	**(2,863)**	**344**	**(2,519)**
At 31 December 2016	**3,305**	**1,036**	**4,341**

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27. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

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

The Group has tax losses arising in Mainland China of RMB298,906,000 (2015: RMB13,541,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Hong Kong of RMB120,282,000 (2015: RMB97,668,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of certain of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is uncertain that taxable profits will be available against which the tax losses can be utilised.

Deferred tax liabilities:

	Accelerated depreciation for tax purposes RMB'000	Withholding tax RMB'000	Revaluation of property under development and investment properties RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	2,291	21,737	–	620	24,648
Acquisition of a subsidiary	–	–	51,134	–	51,134
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 7)	471	400	–	–	871
At 31 December 2015 and at 1 January 2016	**2,762**	**22,137**	**51,134**	**620**	**76,653**
Disposal of a subsidiary	**–**	**–**	**(51,134)**	**–**	**(51,134)**
Deferred tax charged to the consolidated statement of profit or loss during the year (note 7)	**395**	**–**	**–**	**–**	**395**
At 31 December 2016	**3,157**	**22,137**	**–**	**620**	**25,914**

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28. CORPORATE BONDS

	2016 **RMB'000**	2015 RMB'000
At the beginning of the year	**123,466**	–
Corporate bonds issued	**121,983**	123,466
Imputed interest	**7,228**	–
Exchange realignment	**4,703**	–
At end of the year	**257,380**	123,466

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

On 4 January 2016, the Company issued unsecured corporate bonds with principal value of HK$9,000,000. The corporate bonds bear interest at 6.0% per annum and fall due on 3 January 2019.

On 29 January 2016, the Company issued unsecured corporate bonds with principal value of HK$142,300,000. The corporate bonds bear interest at 7.0% per annum and fall due on 28 January 2019.

The corporate bonds are subsequently measured at amortised cost, using effective rate interest rate of 8.16% to 9.16%. As at 31 December 2016, the carrying amount of the corporate bonds was approximately RMB257,380,000 (2015: RMB123,466,000).

29. SHARE CAPITAL

	Number of ordinary shares of HK$0.01	**Nominal value of ordinary shares** HK$'000	**Nominal value of ordinary shares** RMB'000
Authorised:			
As at 31 December 2015, 1 January 2016 and 31 December 2016	2,000,000,000	20,000	16,612

	Number of ordinary shares of HK$0.01	**Nominal value of ordinary shares** RMB'000	**Shares premium** RMB'000
Issued:			
As at 31 December 2015 and 1 January 2016	1,008,866,000	8,226	347,615
Repurchases of shares (note 1)	(13,694,000)	(116)	(21,136)
Exercise of share options (note 2)	20,200,000	177	11,148
As at 31 December 2016	**1,015,372,000**	**8,287**	**337,627**

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29. SHARE CAPITAL (continued)

Notes:

1. The Company repurchased on the Hong Kong Stock Exchange a total of 13,694,000 shares of HK$0.01 each of the Company for an aggregate consideration of HK$25,050,000 (RMB21,252,000 equivalent). The repurchased shares were cancelled on 7 March 2016 and 15 March 2016.

2. On 29 October 2016, 20,200,000 share options were exercised to subscribe for 20,200,000 ordinary share in the Company at a consideration of RMB7,061,000 of which RMB177,000 was credited to share capital and the balance of RMB6,884,000 was credited to the share premium account. Amounts of approximately RMB4,264,000 has been transferred from the share option reserve to the share premium account in accordance with the accounting policy adopted by the Company.

As at 31 December 2016, all issued shares are registered, fully paid and divided into 1,015,372,000 shares (2015: 1,008,866,000 shares) of HK$0.01 each.

30. RESERVES

The amounts of the Group's reserves and movements therein for the years ended 31 December 2016 and 2015 are presented in the consolidated statement of changes in equity.

(i) Discretionary reserve fund

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

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

(ii) Statutory reserve

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

(iii) Exchange fluctuation reserve

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

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31. EQUITY SETTLED SHARE-BASED TRANSACTION

Share option

The Company adopted a share option scheme on 25 June 2012 for the purpose of rewarding certain eligible persons for their contributions and attracting and retaining. The Company has granted share options on 20 May 2016 ("Batch 1") and 20 October 2016 ("Batch 2") during the year.

For Batch 1, the Company has granted to certain eligible persons on 20 May 2016, being employees of the Company and its subsidiaries, subject to acceptance by the Grantees, a total of 79,800,000 share options to subscribe for 79,800,000 new ordinary shares of HK$0.01 each in the share capital of the Company under the Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of Company. These share options are exercisable within 3 years from the date of acceptance (i.e. 20 May 2016). The exercise price is HK$2.50. No options were exercised during year.

For Batch 2, the Company has granted to certain eligible persons on 20 October 2016, subject to acceptance by the Grantees, a total of 20,200,000 share options to subscribe for 20,200,000 new ordinary shares of HK$0.01 each in the share capital of the Company under the Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of Company. These share options are exercisable within 3 years from the date of acceptance (i.e. 20 October 2016). The exercise price is HK$0.40. All options were exercised during year.

(a) ***The number and weighted average exercise prices of share options***

	2016	
	Weighted average exercise price	**Number of options**
Outstanding at the beginning of the year	–	–
Granted during the year	**HK$2.08**	**100,000,000**
Exercised during the year	**HK$0.40**	**(20,200,000)**
Outstanding at the end of the year	**HK$2.50**	**79,800,000**
Exercisable at the end of the year	**HK$2.50**	**79,800,000**

During the year ended 31 December 2016, 100,000,000 share options with weighted average exercise price of HK$2.08 were granted and all the share options from batch 2 with exercise price of HK$0.40 were became exercisable as at 31 December 2016.

The share options outstanding as at 31 December 2016 had an exercise price of HK$2.50 and a weighted average remaining contractual life of 2.5 years.

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31. EQUITY SETTLED SHARE-BASED TRANSACTION (continued)

Share option (continued)

(b) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured by an independent valuer engaged by the Group, namely International Valuation Limited, based on Black-Scholes pricing model. The assumptions used are as follows:

Fair value of share options and assumptions	Batch 1	Batch 2
Fair value at measurement date	HK$0.31	HK$0.24
Share price	HK$1.94	HK$0.40
Exercise price	HK$2.50	HK$0.40
Expected volatility (expressed as average volatility used in the modelling under binomial model)	50%	139%
Option life	3 years	3 years
Expected term	1.50	1.50
Expected dividends	0.00%	0.00%
Risk-free interest rate (based on Hong Kong Government Bond yield)	0.75%	0.83%

The expected volatility was based on statistical analysis of daily share average prices of group of listed companies in the similar industry over the one year immediately preceding the grant date, adjusted for any expected changes to future volatility based on publicly available information. Dividend yield was estimated based on the dividend policy of the Group. Changes in the subjective input assumptions could materially affect the fair value estimate. There were no market conditions associated with the share option grants.

32. BUSINESS COMBINATION

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

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32. BUSINESS COMBINATION (continued)

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

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

Notes to Consolidated Financial Statements

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32. BUSINESS COMBINATION (continued)

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

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

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

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

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

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33. DISPOSAL OF A SUBSIDIARY

On 13 June 2016, a subsidiary of the Company entered into the Sale and Purchase Agreement with Zhangzhou Jiaye Trading Co., Ltd for the disposal of 70% equity interests of Fujian Yudeyuan Property Co., Ltd ("Yudeyuan") ("Disposal") and the sale loan of RMB115,000,000 for the cash consideration of RMB285,000,000. The Disposal has been completed on 11 July 2016.

Yudeyuan is principally engaged in real estate development and management. Yudeyuan holds the land use rights which have been developed into a plaza complex in the Mainland China.

The net assets of Yudeyuan at the date of Disposal were as follows:

	2016 RMB'000
Property, plant and equipment	455
Goodwill	35,915
Property under development	297,918
Investment in properties	434,701
Long-term prepayment	363
Prepayment, deposit and other receivables	77,989
Cash and bank balance	6,975
Pledged bank balance	1,800
Trade payables	(105,026)
Other payables and accruals	(41,997)
Advances from customers	(280,956)
Interest-bearing bank and other borrowings	(40,000)
Deferred tax liabilities	(51,134)
Shareholder's loan	(115,000)
Net asset disposed of Yudeyuan	222,003
Non-controlling interests	(55,838)
Shareholder's loan	115,000
	281,165
Cash consideration	(285,000)
Gain on disposal	(3,835)
Cash consideration	285,000
Cash and bank balances disposed of Yudeyuan	(6,975)
Net cash inflow from the Disposal	278,025

Notes to Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Trade receivables	122,338	–	122,338
Available-for-sale investments	–	2,500	2,500
Financial assets included in deposits and other receivables	307,633	–	307,633
Pledged bank balances	23,412	–	23,412
Cash and cash equivalents	520,146	–	520,146
	973,529	2,500	976,029

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	163,141
Financial liabilities included in other payables and accruals	89,539
Interest-bearing bank and other borrowings	170,700
Corporate bonds	257,380
Amount due to the shareholder	2,122
	682,882

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34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2015

Financial assets

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

Financial liabilities

	Financial liabilities held for trading at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	255,696	255,696
Derivative financial instruments	2,164	–	2,164
Financial liabilities included in other payables and accruals	–	122,712	122,712
Interest-bearing bank and other borrowings	–	442,367	442,367
Corporate bonds	–	123,466	123,466
Amount due to shareholder	–	173	173
	2,164	944,414	946,578

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Liabilities measured at fair value:

	Fair value measurement using significant observable inputs (Level 2)	
	2016	2015
	RMB'000	RMB'000
Derivative financial instruments		
Interest rate swaps	–	1,738
Forward currency contract	–	426
	–	2,164

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: Nil).

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36. CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities (2015: Nil).

37. COMMITMENTS

(a) Capital commitments

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

	2016 **RMB'000**	2015 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**4,531**	8,757
Investment properties and properties under development	**–**	52,477
	4,531	61,234
Authorised, but not contracted for:		
Property, plant and equipment	**79,559**	268,484
Investment properties and properties under development	**–**	454,300
	84,090	784,018

(b) Operating lease commitments

As lessor

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

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

	2016 **RMB'000**	2015 RMB'000
Within 1 year	**–**	2,328
After 1 year but within 5 years	**–**	23,131
After 5 years	**–**	66,844
	–	92,303

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37. COMMITMENTS (continued)

(b) Operating lease commitments (continued)

As lessee

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

	2016 **RMB'000**	2015 RMB'000
Within 1 year	**919**	10,669
After 1 year but within 5 years	**1,329**	23,818
	2,248	34,487

38. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank and other borrowings, which are secured by the assets of the Group, are included in note 25 to the financial statements.

39. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

(a) Transactions with related parties

The following transactions were carried out with related parties during the years ended 31 December 2016 and 2015:

		2016 **RMB'000**	2015 RMB'000
(i)	Advances from/(repayment to) the shareholder:	**1,949**	(8,092)

(ii) The Group's bank borrowings which amounted to RMB26,500,000 as at 31 December 2016 (2015: RMB5,000,000) were guaranteed by the shareholder.

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39. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Balances with related parties

The Group had the following significant balances with its related parties as at 31 December 2016:

(i) Due to the shareholder:

	2016	2015
	RMB'000	RMB'000
Non-trade related		
– Mr. Xiao Zhiyong (note i)	**2,122**	173

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

Note:

(i) On 17 February 2017, Mr. Xiao Zhiyong has resigned as chairman of the Board and executive Director of the Company.

(ii) On 27 March 2017, Ms. Ye Xiaohong has resigned as executive director of the Company.

(c) Compensation of key management personnel

	2016	2015
	RMB'000	RMB'000
Salaries and short-term employee benefits	**1,345**	1,340
Pension scheme contributions and social welfare	**49**	36
Total compensation paid to key management personnel	**1,394**	1,376

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

	Number of individuals	
Emoluments bands	**2016**	2015
Nil to HK$1,000,000	**4**	5
HK$1,000,001 to HK$1,500,000	**1**	–

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

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group is mainly exposed to fair value interest rate risk in relation to its fixed-rate corporate bond. The Group is exposed to cash flow interest rate risk in relation to its variable-rate deposits, bills payables and interest-bearing bank and other borrowings.

The Group currently does not have an interest rate hedging policy for the year ended 31 December 2016. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The Group has used interest rate swaps to manage its exposure to interest rate risk for the year ended 31 December 2015.

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate deposits, bills payables and interest-bearing bank and other borrowings. The analysis is prepared assuming the variable-interest rate deposits, bills payables and interest-bearing bank and other borrowings outstanding at the reporting date were outstanding for the whole year. A 100 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been increased/decreased by 100 basis points and all other variables were held constant, the Group's loss before tax would increase/decrease by approximately RMB1,423,000 for the year ended 31 December 2016.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales denominated in US$ by operating units whose the functional currency is the RMB. Approximately 64% and 46% of the Group's sales for the years ended 31 December 2016 and 2015, respectively, were denominated in US$ and undertaken by these operating units.

The Group used forward currency contracts to manage its foreign currency risk for the year ended 31 December 2015.

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (continued)

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

	Increase/ (decrease) in basis points	Increase/(decrease) in profit before tax	
		2016	2015
		RMB'000	RMB'000
If RMB weakens against the US$	(100)	**1,016**	1,435
If RMB strengthens against the US$	100	**(1,016)**	(1,435)
If RMB weakens against the HK$	(100)	**(53)**	(1,203)
If RMB strengthens against the HK$	100	**53**	1,203

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

As at 31 December 2016 and 2015, all bank balances were deposited in creditworthy financial institutions without significant credit risk.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. As at 31 December 2016, the Group had certain concentrations of credit risk as 29% (2015: 38%) and 89% (2015: 91%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. As the major customers of the Group are all companies with world-famous brands, and long-term business relationship have been established by both parties and insurance was purchased to protect the Group against the potential losses from unrecovered trade receivables, the concentrations of credit risk are well managed by the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

	2016				
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**Total RMB'000**
Interest-bearing bank and other borrowings	**–**	**31,640**	**143,690**	**–**	**175,330**
Corporate bonds	**–**	**4,190**	**8,801**	**272,432**	**285,423**
Trade payables	**20,266**	**142,875**	**–**	**–**	**163,141**
Other payables and accruals	**60,601**	**10,149**	**16,910**	**1,879**	**89,539**
Amount due to shareholder	**2,122**	**–**	**–**	**–**	**2,122**
	82,989	**188,854**	**169,401**	**274,311**	**715,555**

	2015				
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	134,475	320,484	–	454,959
Corporate bonds	–	–	7,924	131,390	139,314
Trade payables	186,120	69,576	–	–	255,696
Derivative financial instruments	–	426	1,738	–	2,164
Other payables and accruals	37,248	72,756	12,708	–	122,712
Amount due to shareholder	173	–	–	–	173
	223,541	277,233	342,854	131,390	975,018

Notes to Consolidated Financial Statements

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

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

The Group monitors capital using a gearing ratio, which is calculated by bank loans and other borrowings divided by the equity attributable to owners of the parent. The gearing ratio as at 31 December 2016 is 67.5% (2015: 53.3%).

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41. STATEMENT OF FINANCIAL POSITION FOR THE COMPANY

	Note	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		**170,886**	170,886
Amounts due from subsidiaries		**558,176**	443,879
Total non-current assets		**729,062**	614,765
CURRENT ASSETS			
Dividend receivable from subsidiaries		**26,525**	25,376
Prepayments, deposits and other receivables		**191**	186
Cash and cash equivalents		**4,985**	40,378
Total current assets		**31,701**	65,940
CURRENT LIABILITIES			
Dividend payable		**569**	–
Bank loan		**–**	25,818
Total current liabilities		**569**	25,818
Total assets less current liabilities		**760,194**	654,887
NON-CURRENT LIABILITIES			
Corporate bonds		**257,380**	123,466
Total non-current liabilities		**257,380**	123,466
Net Assets		**502,814**	531,421
EQUITY			
Share capital		**8,288**	8,226
Reserves	(a)	**494,526**	523,195
Total equity		**502,814**	531,421

The Company's statement of position was approved and authorised for issue by the board of directors on 31 March 2017 and are signed on its behalf by:

Zheng Zhihong
Director

Yang Qingyun
Director

Notes to Consolidated Financial Statements

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

Note:

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

	Contributed surplus* RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Share Option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	170,886	347,615	48	–	(10,556)	278	508,271
Total comprehensive income for the year	–	–	–	–	20,595	(5,671)	14,924
At 31 December 2015 and 1 January 2016	170,886	347,615	48	–	10,039	(5,393)	523,195
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**7,412**	**(46,643)**	**(39,231)**
Repurchases of shares	**–**	**(21,136)**	**116**	**–**	**–**	**(116)**	**(21,136)**
Recognition of equity-settled share-base payment	**–**	**–**	**–**	**24,814**	**–**	**–**	**24,814**
Issue of share under share option scheme	**–**	**11,148**	**–**	**(4,264)**	**–**	**–**	**6,884**
At 31 December 2016	**170,886**	**337,627**	**164**	**20,550**	**17,451**	**(52,152)**	**494,526**

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

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the subsidiaries at 31 December 2016 are as follows:

Name	Place and date of incorporation/ registration and operations and type of legal entity	Authorised/registered/ paid-in/issued capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
漳州萬佳陶瓷工業有限公司 (Zhangzhou Wanjia Ceramic Industry Co., Ltd.)	Zhangzhou, the PRC 2002, limited liability company	Registered and paid-in capital of RMB30,000,000	–	100%	Manufacture and sale of sanitary ware and accessories

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42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (continued)

Name	Place and date of incorporation/ registration and operations and type of legal entity	Authorised/registered/ paid-in/issued capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
漳州萬暉潔具有限公司 (Zhangzhou Wanhui Sanitary Ware Co., Ltd.)	Zhangzhou, the PRC 2005, foreign invested company	Registered and paid-in capital of RMB311,100,000	–	100%	Investment holding, manufacture and sale of sanitary ware and accessories
Nelson Marketing International Limited	Hong Kong 2004, limited liability company	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
Bolina (China) Holding Co., Ltd.	BVI 2011, limited liability company	Issued capital of US$10	100%	–	Investment holding
天津市航標倉儲有限公司 (Tianjin Bolina Storage Co., Ltd.)	Tianjin, the PRC 2012, limited liability company	Registered and paid-in capital of RMB1,000,000	–	100%	Warehousing service, labor service, enterprise management service
西安航標廚衛有限公司 (Xi'an Bolina Kitchen & Bathroom Wares Co., Ltd.)	Xi'an, the PRC 2013, limited liability company	Registered and paid-in capital of RMB1,010,000	–	100%	Various services for sanitary ware, cabinets and accessories, research and development, technical
佛山市航標衛廚服務有限公司 (Foshan Bolina Kitchen & Bathroom Wares Service Co., Ltd.)	Foshan, the PRC 2013, limited liability company	Registered and paid-in capital of RMB1,010,000	–	100%	Various services for sanitary ware, cabinets and accessories
武漢萬暉航標衛廚服務有限公司 (Wuhan Wanhui Bolina Kitchen & Bathroom Wares Service Co., Ltd.)	Wuhan, the PRC 2013, limited liability company	Registered and paid-in capital of RMB1,000,000	–	100%	Various services for sanitary ware, cabinets and accessories

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42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (continued)

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

43. MATERIAL NON-CONTROLLING INTERESTS

For the year ended 31 December 2016, the Group has no any material non-controlling interests occurred.

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

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

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

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43. MATERIAL NON-CONTROLLING INTERESTS (continued)

Summarised financial information for the subsidiary as set out below:

Summarised statement of financial position of Yudeyuan

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

Summarised statement of profit or loss of Yudeyuan

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

Summarised statement of cash flow of Yudeyuan

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

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44. EVENT AFTER THE REPORTING PERIOD

On 21 January 2017, an indirect wholly owned subsidiary of the Company, Zhangzhou Wanhui Sanitary Ware Co., Ltd. (漳州萬暉潔具有限公司) entered into the Sale and Purchase Agreement with five individuals ("Vendors"), pursuant to which the Company has conditionally agreed to purchase the Xiamen Mas-Agee Electronic Technology Co., Ltd. (廈門凱浦瑞電子科技有限公司), and the Vendors have conditionally agreed to sell, the Sale Shares at the Consideration of RMB71,500,000 (equivalent to approximately HK$80,454,596) which will be satisfied (i) as to RMB14,300,000 (equivalent to approximately HK$16,090,919) in cash; and (ii) as to RMB57,200,000 (equivalent to approximately HK$64,363,677) by issue of the consideration Shares by the Company.

45. APPROVAL OF THE FINANCIAL STATEMENTS

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

Five Years Financial Summary

RESULTS

	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**359,977**	716,039	865,613	913,286	816,739
Gross profit	**95,456**	285,492	376,837	427,364	389,823
(Loss)/profit before tax	**(343,013)**	111,913	217,643	280,685	282,709
(Loss)/profit for the year attributable to the owners of the Company	**(349,601)**	74,087	165,880	211,274	246,246

ASSETS AND LIABILITIES

	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,429,529**	2,296,236	1,575,057	1,449,592	1,147,227
Total liabilities	**725,564**	1,193,249	574,291	495,778	289,962

Note:

The summary was prepared as if the current structure of the Group has been in existence throughout the financial year. The consolidated results of the Group for the years ended 31 December 2016, 2015, 2014, 2013 and 2012 and the consolidated assets and liabilities of the Group as at 31 December 2016, 31 December 2015, 31 December 2014, 31 December 2013 and 31 December 2012 are set out in the audited financial statements of current year, last year and the prior two years before last year.