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 2017

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. Xia Zhongping

Audit Committee

Mr. Jiang Guoxiang *(Chairman)*
Mr. Zhang Shujun
Ms. Xia Zhongping

Remuneration Committee

Mr. Zhang Shujun *(Chairman)*
Mr. Jiang Guoxiang
Ms. Xia Zhongping

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

Room 1403, 14/F.
AXA Centre
151 Gloucester Road
Wanchai, Hong Kong

Registered Office

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

Principal Share Registrar

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

Branch Share Registrar

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

Stock Code

The Stock Exchange of Hong Kong Limited: 1190

Company Website

www.bolina.cc

Financial Highlights

	2017 **RMB'000**	2016 RMB'000	% change
Revenue	**409,763**	359,977	13.8%
Gross profit	**20,679**	95,456	(78.3)%
Loss for the year attributable to owners of the company	**(412,277)**	(349,601)	(17.9)%
Loss per share attributable to ordinary equity holders of the company	**RMB(0.35)**	RMB(0.35)	0.0%
Gross profit margin	**5.0%**	26.5%	

	31 December 2017 **RMB'000**	31 December 2016 RMB'000	
Total assets	**1,149,806**	1,429,529	(19.6)%
Net current assets	**135,310**	643,379	(79.0)%
Net assets	**348,864**	703,965	(50.4)%
Cash and cash equivalents	**102,110**	520,146	(80.4)%
Debt-to-Equity ratio	**141.5%**	67.5%	
Current ratio	**1.21**	2.13	

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 2017.

Financial Results and Dividends

For the year ended 31 December 2017, the Group's revenue amounted to RMB409.8 million, increased by 13.8% as compared with last year; net loss for the year amounted to RMB412.3 million, increased by 17.9% as compared with a net loss of RMB349.6 million recorded for 2016; the basic loss per share was RMB35 cents, while the loss per share recorded for the previous year was RMB35 cents.

The Board of Directors resolved not to distribute a final dividend for the year ended 31 December 2017.

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 five automatic tunnel kiln production lines that have a wide cross-section and over 100 meters long, and its annual output of close to 5 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 2017, the revenue from America's market amounted to RMB215.1 million, representing 52.5% 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 2017, the Group established 63 distributors and 594 points of sales. Meanwhile, the Group has set up a branch in 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, JD.com, and Amazon to promote and sell Bolina's own branded products. Since 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 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

While maintaining a stable leading position in the bathroom industry, the Group has always been committed to exploring new markets. In January 2017 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 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. The completion of the transaction has completed on 12 July 2017.

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 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.

Chairman's Statement

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 2018 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 594 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.

Besides maintaining its stable leading status in the sanitary industry, the Company has been endeavouring to expand the market. During the year under review, the Group acquired 51% issue share capital of the Xiamen Mas-Agee Electronic Technology Co., Ltd, which principally engage in research and development, manufacture and sale of massage chairs and massage devices. This acquisition is in line with the Company's long term development strategy and is thus beneficial to the maximization of the Company's interests and shareholders' values. The Group aims to utilize the research capabilities of the Target Company to support the development of intellectual household products and solutions. The acquisition can diversify the Group's products, create new profit growth engine, expand medium-to-high end customer bases and cross-sale with the sanitary ware sector by leveraging the Company's ample management experiences, excellent marketing strategies and extensive sale network.

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 2017. According to statistics of the National Bureau of Statistics, China's GDP was RMB82,712.2 billion in 2017, representing 6.9% growth over the previous year. Growth was stable compare with 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. Since 2016, the Group's ODM and OEM export businesses, which used to be relatively stable, also faced serious challenges, the challenging operating environment is expected to continue.

Besides maintaining its stable leading status in the sanitary industry, the Company has been endeavouring to expand the market. During the year under review, the Group acquired 51% issue share capital of the Xiamen Mas-Agee Electronic Technology Co., Ltd, which principally engage in research and development, manufacture and sale of massage chairs and massage devices. This acquisition is in line with the Company's long term development strategy and is thus beneficial to the maximization of the Company's interests and shareholders' values. The Group aims to utilize the research capabilities of the Target Company to support the development of intellectual household products and solutions. The acquisition can diversify the Group's products, create new profit growth engine, expand medium-to-high end customer bases and cross-sale with the sanitary ware sector by leveraging the Company's ample management experiences, excellent marketing strategies and extensive sale network.

Business Review

In 2017, the Group's revenue reached RMB409.8 million, increased by 13.8% as compared with last year; and loss attributable to ordinary equity holders of the Company was RMB412.3 million compared to a loss of RMB349.6 million in 2016.

Sales Volume

For the year ended 31 December 2017, the Group's sales volume was approximately 21 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 5 million units for the year ended 31 December 2017 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 63 distributors operating 594 points of sales as at 31 December 2017.

The Group has 1 branch office in the form of subsidiaries including Xi'an as at 31 December 2017, 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, JD.com and Amazon, to promote and sell Bolina's own branded products. Since 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 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 2018 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 594 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 2017, revenue of the Group was RMB409.8 million, increased by 13.8% as compared with the year of 2016.

For the year ended 31 December 2017, gross profit of the Group was RMB20.7 million, down by 78.3% as compared with the year of 2016; loss attributable to the ordinary equity holder of the Company amounted to RMB412.3 million, whereas the year of 2016 recorded a loss of RMB349.6 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 2017 and 2016:

	Year ended 31 December			
	2017		2016	
	RMB'000	**%**	RMB'000	%
Ceramic sanitary ware business				
One-piece toilets	**63,098**	**15.4**	48,802	13.6
Two-piece toilets (with water tanks)	**225,651**	**55.1**	245,060	68.1
Washbasins and stands	**24,051**	**5.9**	17,418	4.8
Other ceramic products (including urinals and bidets)	**15,469**	**3.7**	12,353	3.4
Non-ceramic sanitary products	**60,633**	**14.8**	36,344	10.1
Sub-total	**388,902**	**94.9**	359,977	100.0
Massage chairs and massage devices business				
Shoulder massage belts	**4,082**	**1.0**	–	–
Massage chairs	**1,767**	**0.4**	–	–
Massage cushions (pillows)	**1,381**	**0.3**	–	–
Foot massage machines	**355**	**0.1**	–	–
Other massage devices	**13,276**	**3.3**	–	–
Sub-total	**20,861**	**5.1**	–	–
Total	**409,763**	**100.0**	359,977	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 2017 and 2016:

	Year ended 31 December			
	2017		2016	
	RMB'000	**%**	RMB'000	%
Branded products				
Distributors	**115,313**	**28.1**	66,169	18.4
Direct sales in the PRC	**64,443**	**15.7**	21,392	5.9
Direct sales to overseas customers	**1,091**	**0.3**	993	0.3
Sub-total	**180,847**	**44.1**	88,554	24.6
Non-branded products				
ODM	**161,378**	**39.4**	209,215	58.1
OEM	**67,538**	**16.5**	62,208	17.3
Sub-total	**228,916**	**55.9**	271,423	75.4
Total	**409,763**	**100.0**	359,977	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 2017 and 2016:

	Year ended 31 December			
	2017		2016	
	RMB'000	**%**	RMB'000	%
First-tier cities	**2,299**	**2.0**	18,918	28.6
Second-tier cities	**1,029**	**0.9**	7,289	11.0
Third-tier and other cities	**111,985**	**97.1**	39,962	60.4
Total	**115,313**	**100.0**	66,169	100.0

Revenue derived from the Group's branded products increased from RMB88.6 million for the year ended 31 December 2016 to RMB180.8 million for the year ended 31 December 2017. The increased in revenue was mainly attributable to the (i) the Group began to make efforts to assist distributors in key provinces and municipalities since 2016 for the purposes of enhancing distributors' operating capacity, intensity sales channels, re-establish shop image, step up brand promotion and consolidate brand advantage and (ii) advertising and promotion events incurred for the years.

Management Discussion and Analysis

Financial Review (Continued)

Revenue (Continued)

Revenue derived from the Group's ODM and OEM products decreased from RMB271.4 million for the year ended 31 December 2016 to RMB228.9 million for the year ended 31 December 2017. 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 2017 and 2016:

Own branded products

	Year ended 31 December 2017			Year ended 31 December 2016		
Products	**Units**	**Average price**	**Revenue**	Units	Average price	Revenue
		RMB	**RMB'000**		RMB	RMB'000
Two-piece toilets (with water tanks)	**481,883**	**91.1**	**43,907**	44,658	65.8	2,938
One-piece toilets	**106,017**	**530.1**	**56,201**	70,335	498.5	35,064
Washbasins and stands	**210,752**	**109.2**	**23,009**	134,385	74.0	9,940
Other ceramic products (including urinals and bidets)	**433,108**	**19.1**	**8,260**	64,887	72.6	4,709
Non-ceramic sanitary products	**360,236**	**137.3**	**49,470**	354,177	101.4	35,903
Total	**1,591,996**	**113.6**	**180,847**	668,442	132.5	88,554

ODM products

	Year ended 31 December 2017			Year ended 31 December 2016		
Products	**Units**	**Average price**	**Revenue**	Units	Average price	Revenue
		RMB	**RMB'000**		RMB	RMB'000
Two-piece toilets (with water tanks)	**1,109,519**	**131.6**	**145,997**	1,356,160	140.4	190,343
One-piece toilets	**9,291**	**520.5**	**4,836**	25,746	533.4	13,733
Washbasins and stands	**3,488**	**18.3**	**64**	49,862	99.1	4,939
Other ceramic products (including urinals and bidets)	**4,160**	**84.9**	**353**	750	265.3	199
Non-ceramic sanitary products	**235,464**	**39.6**	**9,332**	380	2.6	1
Massage chairs	**51**	**7,627.5**	**389**	–	–	–
Massage cushions (pillows)	**50**	**20.0**	**1**	–	–	–
Foot massage machines	**776**	**457.5**	**355**	–	–	–
Other massage devices	**870**	**58.6**	**51**	–	–	–
Total	**1,363,669**	**118.3**	**161,378**	1,432,898	146.0	209,215

Management Discussion and Analysis

Financial Review (Continued)

Revenue (Continued)

OEM products

Products	Year ended 31 December 2017 Units	Average price RMB	Revenue RMB'000	Year ended 31 December 2016 Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**292,292**	**122.3**	**35,746**	430,165	120.4	51,779
One-piece toilets	**7,370**	**279.6**	**2,061**	9	555.6	5
Washbasins and stands	**10,137**	**96.5**	**978**	26,767	94.9	2,539
Other ceramic products (including urinals and bidets)	**13,702**	**500.4**	**6,856**	25,946	286.9	7,445
Non-ceramic sanitary products	**29,390**	**62.3**	**1,831**	16,021	27.5	440
Shoulder massage belts	**29,169**	**139.9**	**4,082**	–	–	–
Massage chairs	**246**	**5,601.6**	**1,378**	–	–	–
Massage cushions (pillows)	**11,706**	**117.9**	**1,380**	–	–	–
Other massage devices	**17,714,220**	**0.7**	**13,226**	–	–	–
Total	**18,108,232**	**3.7**	**67,538**	498,908	124.7	62,208

Gross Profit and Gross Profit Margin

Gross profit decreased by RMB74.8 million, or 78.3%, from RMB95.5 million for 2016 to RMB20.7 million for 2017. Overall gross profit margin decreased from 26.5% for 2016 to 5.0% for 2017. During the second half year ended 31 December 2017, the Group has upgraded the manufacturing facilities to higher environmental protection standards and installation of environmental friendly machines and systems so as to fulfil certain environment policies which issued by the local government in the PRC. Due to additional costs would has involved during the upgrading manufacturing process and the increased of cost of material during the year under review, the Group's cost of sales has increased accordingly. Furthermore, the Group has experienced quality issue of the manufacturing due to the upgrading manufacturing process which resulting certain sales return was recorded and the relevant cost of goods have absorbed to the cost of sales which resulting the significant decrease in the gross profit margin.

During the year, the Group has also experienced a decrease in unit selling price for its own brand products, and ODM product due to the intense market competition. The unit selling price of own brand products has drop by approximately 14% and the unit price of ODM product has drop by approximately 19% respectively as comparing to the unit selling price for the year 2016.

Management Discussion and Analysis

Financial Review (Continued)

Gross Profit and Gross Profit Margin (Continued)

For 2017 and 2016, the Group's gross profit and gross profit margin by business segment was as follows:

	2017		2016	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
Branded products	**1,931**	**1.1**	15,474	17.5
ODM	**10,235**	**6.3**	66,296	31.7
OEM	**8,513**	**12.6**	13,686	22.0
Total	**20,679**	**5.0**	95,456	26.5

Selling and Distribution Expenses

Selling and distribution expenses decreased by RMB35 million, or 10.9%, from RMB320.2 million for 2016 to RMB285.2 million for 2017. The decrease 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 from RMB156.6 million for 2016 to RMB128.2 million for 2017.

Administrative Expenses

Administrative expenses increased by RMB9.8 million, or 9.0%, from RMB109.0 million for 2016 to RMB118.8 million for 2017. This was mainly attributable to one-off recognition in relation to provision for impairment of trade receivables of approximately RMB24.7 million.

Finance Costs

Finance costs represent interest expense on bank and other borrowings of the Group. For the year ended 31 December 2017, finance costs decreased by RMB1.3 million, or 3.7%, from RMB35.9 million for 2016 to RMB34.6 million for 2017.

Net Loss

For the year ended 31 December 2017, loss attributable to ordinary equity holders of the Company amounted to RMB412.3 million (2016: loss of RMB349.6 million). Basic loss per share amounted to RMB35 cents (2016: basic loss per share of RMB35 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 2017 was 141.5% (31 December 2016: 67.5%). The gearing ratio increased in 2017 primarily due to the decrease in total equity as a result of the reported net loss for the year.

Management Discussion and Analysis

Financial Review (Continued)

Major Investments and Disposal

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. The completion of the transaction has completed on 12 July 2017.

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 RMB134 million for 2017, mainly in connection with the upgrade and improvement of production plant and facilities.

Capital commitments

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

	2017 **RMB'000**	2016 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**3,431**	4,531
Investment properties and properties under development	**–**	–
	3,431	4,531
Authorised, but not contracted for:		
Property, plant and equipment	**70,778**	79,559
Investment properties and properties under development	**–**	–
	74,209	84,090

Management Discussion and Analysis

Financial Review (Continued)

Operating lease commitments

As lessee

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	2017 **RMB'000**	2016 RMB'000
With 1 year	**991**	919
After 1 year but within 5 years	**524**	1,329
	1,515	2,248

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 2017, cash and cash equivalents of the Group amounted to RMB102.1 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:

	2017 **RMB'000**	2016 RMB'000
Net cash flows used in operating activities	**(293,310)**	(601,626)
Net cash flows (used in)/generated from investing activities	**(124,086)**	273,656
Net cash flows generated from/(used in) financing activities	**2,753**	(63,071)
Net decrease in cash and cash equivalents	**(414,643)**	(391,041)
Cash and cash equivalents at beginning of year	**520,146**	909,894
Effect of foreign exchange rate changes, net	**(3,393)**	1,293
Cash and cash equivalents at end of year	**102,110**	520,146

Management Discussion and Analysis

Financial Review (Continued)

Financial Resources and Liquidity (Continued)

Net cash flows from operating activities

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

In 2017, the Group's net cash flow used in operating activities was RMB293.3 million. Cash flow from operating activities for the year was primarily due to the record of loss before tax resulted from gross profit drop and the selling and distribution expenses.

Net cash flows from investing activities

In 2017, the Group's net cash flow used in investing activities was RMB124.1 million. Cash flow from investing activities changed from net inflow to net outflow for the year was primarily attributable to the purchase of fixed assets.

Net cash flows from financing activities

In 2017, the Group's net cash generated from financing activities was RMB2.8 million, primarily attributable to the new bank loan raised and the proceeds arising from exercise of share option.

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

	2017 **RMB'000**	2016 RMB'000
Secured	**165,190**	134,200
Guaranteed	**32,200**	36,500
Unsecured	**–**	–
Total	**197,390**	170,700

	2017 **RMB'000**	2016 RMB'000
Fixed interest rate	**23,600**	5,000
Floating interest rate	**173,790**	165,700
Total	**197,390**	170,700

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

As at 31 December 2017, the Group had banking facilities of RMB200.9 million. The amount of utilised banking facilities was RMB165.2 million. The unutilised banking facilities was RMB35.7 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 RMB142.2 million and RMB122.3 million as at 31 December 2017 and 31 December 2016, respectively. The Group's average trade receivable turnover days were 127 days and 132 days for 2017 and 2016 respectively. There was no material change for the trade receivable turnover days as compared with last year.

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.

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 RMB87.4 million and RMB116.3 million as at 31 December 2017 and 31 December 2016, respectively. The Group's average payables turnover days were 96 days and 241 days for 2017 and 2016, respectively. The decrease in the trade payables turnover days was primarily due to the increase in cost of sales and decrease in trade payables as compared with last year.

Inventory Turnover Days

The Group's inventories increased from RMB234.8 million as at 31 December 2016 to RMB255.7 million as at 31 December 2017. The Group's average inventory turnover days were 240 days and 234 days for 2017 and 2016, respectively. There was no material change for inventory turnover days as company with last year.

Bank Borrowings and Other Borrowings

As at 31 December 2017, the balance of the Group's bank loans and other borrowings was RMB197.4 million, increased by RMB26.7 million or 15.6% from that of RMB170.7 million as at 31 December 2016.

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 RMB10.9 million and RMB11.2 million as at 31 December 2017 and 31 December 2016, respectively; (ii) mortgages over the Group's buildings, which had aggregate carrying values of approximately RMB54.9 million and RMB58.6 million as at 31 December 2017 and 31 December 2016, respectively; and (iii) mortgages over the Group's pledged bank balances which amounted to RMB11.4 million and RMB23.4 million at 31 December 2017 and 31 December 2016, respectively.

Management Discussion and Analysis

Capital structure

Authorised share capital

As at 31 December 2017, the authorized share capital of the Company was HK$20,000,000 divided into 2,000,000,000 Shares of HK$0.01 each. The authorised share capital had no change during the year.

Issued share capital

As at 31 December 2017, all issued shares are registered, fully paid and divided into 1,277,618,220 shares of HK$0.01 each.

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.

Contingent Liabilities

As at 31 December 2017, neither the Group nor the Company had any significant contingent liabilities.

Events after the Reporting Period

Statutory demand

On 3 January 2018, the Company received a statutory demand (the "Statutory Demand") dated 29 December 2017 issued by the legal representative of PC Securities Limited, the placing agent of the bonds issued by the Company with principal amount of HK$152 million which was already due on 27 December 2017 ("1st Bonds") but yet to be settled as the date of this report, in respect of alleged claims for the settlement of the indebtedness under the 1st Bonds, in the sum of approximately HK$157 million which comprised the principal amount and interest thereon. The said statutory demand were issued pursuant to section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance Cap 32 Laws of Hong Kong. If the Company fails to repay the said sums within 21 days, a winding-up order may be made in respect of the Company.

On 3 January 2018, the Company also received a notice from the legal representative of PC Securities Limited, the placing agent of the bonds issued by the Company with principal amount of HK$142.3 million due on 28 January 2019 ("2nd Bonds"), to demand that the 2nd Bonds are immediately due and repayable due to the Company failing to settle the 1st Bonds.

For the details, please refer to the Company's announcement dated 3 January 2018.

Proposed Rights Issue

On 23 January 2018, the Board, through Astrum Capital Management Limited will raise net proceeds of not less than approximately HK$217.20 million and not more than approximately HK$217.44 million before expenses (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date), by way of allotment and issue of not less than 2,555,236,440 Rights Shares and not more than 2,558,136,440 Rights Shares on the basis of two (2) Rights Shares for every one (1) Share held on the Record Date at the Subscription Price of HK$0.085 per Rights Share.

For the details, please refer to the Company's announcement dated 23 January 2018.

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 2017, the Group had about 1,364 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 2017, the Group provided 1,683 hours of training in aggregate for about 127 person-times. The training courses covered areas such as industry development, marketing management, operation and management, laws and regulations, lean management, project management, finance, logistics, information technology, safe production and general working skills. These training further improved the management skills and professional standard of the management of the Group and enhanced the overall quality of the employees to cater to the Group's rapid developments; hence, improving the competitiveness of the Group.

Better
Products

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

Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Zhihong (鄭志鴻), aged 47, is the chairman, the chief executive officer, and an executive Director of our Company. Mr. Zheng was appointed to our Board on 2 December 2017. 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 47, 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 43, 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 43, 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 57, 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 53, 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 30, 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 6 years of experience in sales and marketing management of sanitary ware industry.

Ms. Xia Zhongping, aged 33, was appointed as an independent non-executive Director of our Company on 16 August 2017. Ms. Xia obtained a Bachelor Degree of Economics from Jiangxi Agricultural University in 2007. Ms. Xia has over 8 years of experience in sales and marketing management in asset management industry and other industries.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Chen Zhiqiang (陳志強), aged 48, 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 to 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 manager. 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.

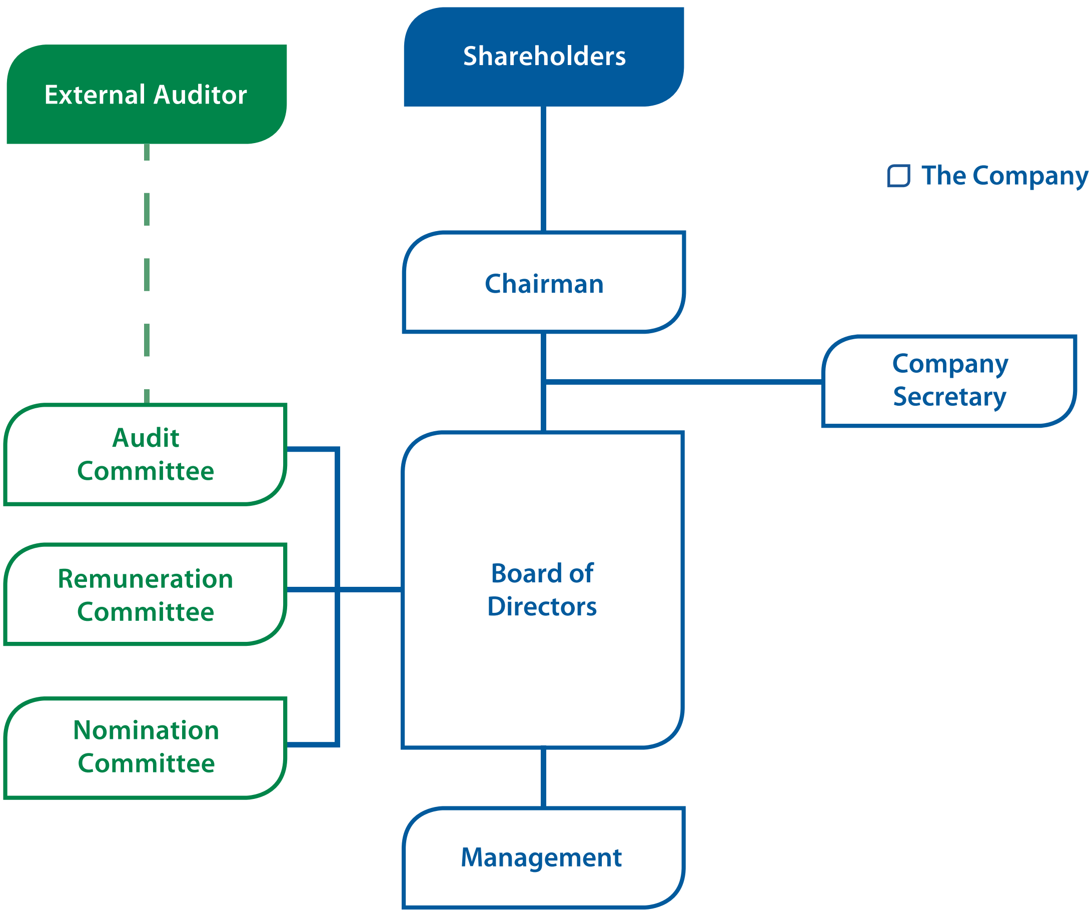
Ms. Yang Xiuying (楊秀英), aged 42, is a general manager of the Production Centre of our Group and an officer of the CEO Office. Ms. Yang has been a manager of the Administrative Department of Zhangzhou Wanjia and Zhangzhou Wanhui since joining our Group in February 2008. She worked for our Group as a general manager of the Administrative Centre from July 2012 to July 2017. Ms. Yang has extensive practical experience in corporate operations management. Before joining our Group, she worked for Dongguan Huichuan Metal Furniture Manufacturing Co., Ltd. (東莞匯川金屬家具製造有限公司) as a manager of the Management Department from January 2014 to September 2007. From November 1999 to November 2003, she served as a manager of the Administrative Department of Planet Leisure Goods Factory (柏力休閒用品廠). She graduated from Yanjing Overseas Chinese University (燕京華僑大學) in Beijing in July 2002 and earned her master's degree in global business management from Northwestern Polytechnic University in the US in 2012.

Ms. Lin Huiqin (林惠琴), aged 40, is a general manager of the Human Resources Administrative Centre of our Group. Having been engaged in human resources and corporate management for 18 years, Ms. Lin has a solid theoretical foundation and extensive experience in HR and corporate management. Many of her academic theses on human resources were cited by the media in Haixi. Before joining our Group, Ms. Lin worked for Hongruixing (Jinjiang) Co., Ltd. (紅瑞興(晉江)有限公司) as a manager of the Management Department from February 2001 to 2006. From February 2006 to July 2017, Ms. Lin worked for Xihe Sanitary Ware of Jomoo Group (九牧集團西河衛浴) as a HR manager, officer of the GM Office, assistant to GM and HR and administrative director. Ms. Lin has brought her previous extensive experience into better play since joining our Group in mid-July 2017. She graduated from Fujian Institute of Education in July 2000.

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 Report

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 during the year ended 31 December 2017 as contained in Appendix 14 to the Listing Rules, except for the following deviation:

Chairman and Chief Executive Officer

Pursuant to Code Provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. However, in view of the current business nature of the Company, Board opines that is not necessary to appoint a chairman or chief executive officer and daily operation of the Group is delegated to different executive Directors, department heads and various committees. In this circumstance the Board considers that the present practice has already addressed the concerns of the CG Code in this respect.

Non-executive Directors

Pursuant to Code Provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term subject to re-election. None of the existing Directors and INEDs are engaged on specific term, and it constituted a deviation from Code Provision A.4.1 of the CG Code. However all Directors, including non-executive Directors and INEDs are subject to retirement by rotation at each annual general meeting at least once every three years under the Company's memorandum and article of association. In the circumstance, the Board considers that the present practice has already addressed the concerns of the CG Code in this respect.

Attendance of Annual General Meeting

Pursuant to Code Provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. Due to other pre-arranged business commitments, Jiang Guoxiang, Zhang Shujun and Kwok Wai Ling being the independent non-executive director of the Company, were not present at the annual general meeting of the Company held on 16 June 2017.

Notice of annual general meeting

Pursuant to Code Provision of E.1.3 of the CG Code, a notice of annual general meeting should be sent to shareholders at least 20 clear business days before the meeting. However, the notice of the annual general meeting in 2017 was issued by the Company less than 20 clear business days.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transaction. Based on specific enquiry of all the Directors, the Directors have complied with the required standard as set out in the Model Code throughout the financial year of 2017.

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.

Corporate Governance Report

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

During the financial year of 2017 under review, 13 board meetings were held and the attendance of each Director at the Board meetings was as follows:

Name of Directors	Attendance/Number of Board meetings
Mr. Xiao Zhiyong	4/4
Mr. Zheng Zhihong	13/13
Mr. Yang Qingyun	13/13
Ms. Ye Xiaohong	5/5
Mr. Lu Jiangqing	5/5
Mr. Tong Jifeng	5/5
Mr. Wang Yuk Lun, Alan	5/5
Mr. Zhang Ming	12/13
Ms. Sun Yumei	7/8
Mr. Lam Ying Choi, Donny	7/8
Mr. Jiang Guoxiang	13/13
Mr. Zhang Shujun	8/8
Ms. Kwok Wai Ling	4/4
Ms. Xia Zhongping	2/3

Corporate Governance Report

Practices and conduct of Board Meetings

The Company's Articles of Association allows the Board conducts meeting on a regular basis and on an ad hoc basis. The Board meetings to be conducted by means of telephones or other communications equipment and any resolutions to be passed by all Directors from time to time when necessary unless such as are temporarily unable to act through ill-health or disability.

At least 14 days' notice for regular Board meetings and reasonable notice for non-regular Board meetings are given to all Directors so as to ensure that each of them had an opportunity to attend the meetings. The Company Secretary assists the chairman of the Board in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are sent in full to all Directors at least 3 days before the date of the Board meeting.

After the meeting, draft minutes of the Board meeting are circulated to all Directors for their comment before execution and approval. All Board minutes are kept by the Company Secretary and available for inspection upon notice given by the Directors. Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary.

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.

A4: Board Composition

The Board currently comprises 8 directors, including 5 executive directors and 3 independent non-executive directors ("INEDs"). During the reporting period, Ms. Sun Yumei and Mr. Lam Ying Choi, Donny were appointed as executive Directors and Mr. Zhang Shujun and Ms. Xia Zhongping were appointed 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.

Corporate Governance Report

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 2017, the Board at most of times met the listing requirements of having at least 3 INEDs, and that at least one of them had appropriate professional qualifications in accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED on his independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

A5: Appointment, Re-election and Removal

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

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

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.

Corporate Governance Report

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 36(c) to the financial statements.

B. THE BOARD COMMITTEES

B1: Audit Committee

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

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

The Audit Committee currently comprises 3 members, namely Mr. Jiang Guoxiang (Committee Chairman), Mr. Zhang Shujun and Ms. Xia Zhongping, of whom all are INEDs. The Audit Committee meets at least twice a year to review the Group's results.

The Audit Committee is responsible for reviewing the appointment of auditors on an annual basis including a review of the audit scope and the audit fee; ensuring the objectivity and independence of the auditors; meeting with the auditors to discuss issues arising from the final audit and any matters the auditors suggest to discuss; reviewing the sufficiency and effectiveness of the risk management and the internal controls; engaging a professional consultant as the Group's internal auditor to discharge the duties of the Group's internal control and risk management, reviewing the annual and interim report in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; serving as a focal point for communication between other Directors and the auditor in respect of the duties to financial reporting,

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
Jiang Guoxiang	2/2
Zhang Shujun	2/2
Kwok Wai Ling	1/1
Xia Zhongping	1/1

During the committee meetings held in the financial year of 2017, the Audit Committee performed the work summarized as (1) reviewed the report to the Audit Committee arising from its auditing of annual results of the Group for the year ended 31 December 2016, 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 2016, and recommended the same to the Board of the Company; (3) reviewed and evaluated the internal control system of the Company; (4) approved the auditors' fee and discussed and re-appointed Elite Partners CPA as the auditors of the Group for 2017, and recommend the same to the Board of the Company and (5) reviewed and approved the draft consolidated interim results of the Group for the six months ended 30 June 2017 and recommend the same to the Board of the Company.

The financial reports and the results announcement of the Company for the year ended 31 December 2017 have been reviewed and approved by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

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. Xia Zhongping), all of whom are INEDs.

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
Zhang Shujun	1/1
Jiang Guoxiang	1/1
Kwok Wai Ling	1/1

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.

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
Zheng Zhihong	3/3
Jiang Guoxiang	3/3
Zhang Shujun	3/3

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 2017, 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 63 to 68 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.

Corporate Governance Report

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

The management of the Group is responsible for designing, maintaining, implementing and monitoring of the risk management and internal control system to ensure adequate control in place to safeguard the Group's assets and 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 resulting 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 2017, 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 2017.

The Board considered that, for the year ended 31 December 2017, 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 2017, 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 2017.

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 2017, 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 2017 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 2017 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 2017 is RMB1,834,000.

Environmental, Social and Governance Report

Introduction and Scope of ESG Report

The Board is pleased to present the 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.

In this ESG report of the Group it will present the policies, initiatives and performance of the Group for the year ended 31 December 2017. It will also highlight material aspects identified in 2017.

The ESG report of the Group has been presented in two subject areas including Environmental and Social section. Each subject discloses 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 emission
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	Labor practices
B.2 Health and safety	Workplace health and safety
B.3 Development and training	Employee development and training
B.4 Labour standards	Employment practice
B.5 Supply chain management	Supply chain management
B.6 Product responsibility	Product quality
B.7 Anti-corruption	Anti-corruption practices
B.8 Community investment	Community involvement

The Group

The principal activity of the Group includes the design, development, production, marketing and distribution of sanitary ware branded products marketed under the group's own brand in the PRC and under third parties brands on an ODM and OEM basis to the group's international customers. 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.

Environmental, Social and Governance Report

A. Environmental

The Group has established environmental policies and has communicated practical environmental objectives to employees. The Group always keeps itself up-to-date on developments in local legislation and standards for environmental protection. During the reporting period, the Group did not experience any cases of non-compliance relating to environmental laws and regulations in PRC and Hong Kong. Manufacturing facilities of the Group does not involve heavy machinery and majority of the production was performed indoors. The raw material used in the production are purchased locally. Comfort chair production only involves assembling of parts purchased from suppliers and thus the main source of impact on the environment is domestic in nature.

Major sources emissions come from manufacturing sanitary product such as two-piece toilets (with water tanks), washbasins and stands and other ceramic products including urinals and bidets. The Group ensured wastewater is properly connected to the municipal sewage system and all land waste is sent to municipal solid waste management plant during production. Spray paint will also contribute environmental impact. The Group will take strict control of the regulations in spray paint selection and ensure employees wear safety masks during use. Microdust will be produced in the course of the production, proper ventilation equipment to control dust in the factory is installed. Related department will perform regular assessment to take better measures in reducing emissions.

A.1 Emissions

The Group is engaging in manufacture sanitary ware, strict control has been taken for on waste material. It is the Group's policy to maintain the manufacturing 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 2017, 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》.

During the year ended 31 December 2017, air emission for nitrogen oxides ("NOx"), sulphur oxides ("SOx") and respiratory suspended particles ("RSP", also known as Particulate Matter ("PM")) were about 145,236 g, 494 g and 28,865 g respectively, which were mainly produced from the company vehicles.

The main source of the Group's greenhouse gas emissions is derived from direct emission from the mobile combustion sources ("Scope 1"), indirect emission from acquired electricity emissions ("Scope 2") and other indirect emissions ("Scope 3"). The greenhouse gas of Scope 1 was generated by vehicles usage, Scope 2 was generated by electricity usage and Scope 3 was generated by water consumption and paper used. The total greenhouse gases emissions from Scope 1, Scope 2 and Scope 3 for the year ended 31 December 2017 were 89,721 kg, 18,099,152 kg and 120,404 kg respectively.

There is no hazardous waste was produced and there is 85 tons non-hazardous waste including domestic waste and scrapped products was produced. The non- hazardous waste would be disposed by the Group to disposal services provider.

Environmental, Social and Governance Report

A.2 Use of resources

Energy and water consumption

The Group is committed to performing regular assessment for better management in the use of resources. Being a light industry which mainly involves manufacturing ceramic products and assembly of massage chairs, the resources used by the Group relates to fuel for heat treatment, water consumption, electricity and other raw material for production of clay. The Group has various policies and practices to efficiently use resources during production to reduce waste with the optimal planning of production runs. The use of resources involves raw material in the manufacturing stage of the product such as talc, gypsum powder and clay. The Group produced approximately 2.5 million units of sanitary ware.

The following consumption data was recorded in the year ended 31 December 2017:

- electricity consumption: 22,344,632 kWh
- water consumption: 304,148 tons
- paper used: 1,841 kg
- diesel used: 6,568 Litres
- petrol used: 26,409 Litres

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 evaluates the policies and practices from time to time to reduce the impact of their factories to the environment of the neighboring areas. One of the prime examples is their energy-saving initiatives by advocating and promoting a culture of good practice and constantly updating of the Group's saving measures. The Group will continue to seek alternative environmental friendly resources and materials to reduce its impact on the environment.

Environmental, Social and Governance Report

B. Social

B.1 Employment

Labor practices

The Group is committed to having a good workplace practice free from discrimination and received equal opportunities for all.

To ensure an equal and fair working environment, the Group has adopted practices and policies that complies with Labour Law of the People's Republic of China《中華人民共和國勞動法》, Labour Contract Law of the 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 a regular annual assessment of employees to review staff's performance. To promote teamwork the Group hosts 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. Management of the Group believes that the workplace facilities and management directives complied with Labour Law of the People's Republic of China《中華人民共和國勞動法》in respect of occupational safety and health and other applicable regulations to provide a safe, healthy and comfortable working environment. The workplace is equipped with fire and safety equipment to prevent the 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 foundation 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 onboard training to help adapt faster to the operations of the Group.

Environmental, Social and Governance Report

B.4 Labour Standards

Child labor and forced labor

The management of the Group 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 protecting the labor rights of staff and established whistleblowing mechanism for staff to report the violation of labor right. It's the policy of the Group not to employ any illegal labor force, including underage labor and forced labor. For the year ended 31 December 2017, there is no labor dispute between the Group and its staff.

Hong Kong	**PRC**
Mandatory Provident Fund (MPF)	Medical Insurance
Medical Insurance	Unemployment Insurance
Performance Bonus	Work-related Injury Insurance
Severance Payment/Long Service Payment	Childbirth Insurance
Maternity/Paternity Leave with Pay	Hosing Accumulation Funds
Employment Compensation Insurance	Health and Safety Endowment Insurance

B.5 Supply Chain Management

The quality and safety of its products are top priorities of the Group. The Group is committed to ensuring its supply chain is operating as efficiently as possible to ensure its products are safe and standardized. Greater emphasis is placed on ensuring the communication and relationship with the suppliers towards sustainable development, to ensure the Group's view and stance on sustainability are being consistently carried out end to end of the supply chain. The Group also tended to maintain long-term relationship with its suppliers for ensuring a stable supply of materials or goods. In respect of sales distribution of products under the Group's own branded, the Group has established a third-party distributor model throughout China.

The objectives are to strengthen the collaborative relationship with the strategic suppliers and to create competitive advantages in the value chain, thereby reducing the impact on the society and environment 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

Environmental, Social and Governance Report

B.6 Product Responsibility

Product safety and quality

The Group has adopted policies to ensure the product satisfaction 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 2017, 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 have problems with the suppliers immediately. Majority of the business of the Group relies on sales to other businesses rather than individual customers, hence it does not involve the collection of private customer data.

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 the 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 2017, Management of the Group believes that there was no occurrence of the abovementioned. A system with good moral integrity and the anti-corruption mechanism is the cornerstone for sustainable and healthy development of the Group. The Group adopted a formal policy for reporting violations and any suspicious transactions would be notified and reported to the relevant governing body by the responsible officer.

B.8 Community investment

Community involvement

To contribute back to the society is part of the Group's commitment to fulfilling 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 providing 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 2017.

Business Review

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

Principal Activities

The principal activity of the Company is investment holding.

The principal activities of the Group include the design, development, production, marketing and distribution of sanitary ware branded products marketed under our own brand in the PRC and under third parties' brands on an ODM and OEM basis to our international customers. During the year, the Group acquired 51% of the issued share capital of Xiamen Mas-Agee Electronic Technology Co., Ltd., which engages in the research and development, manufacture and sale of massage chairs and massage devices.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 69 of the annual report.

The Board resolved not to distribute a final dividend for the year ended 31 December 2017.

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 147 of the annual report.

Major Customers and Suppliers

The aggregate turnover attributable to the Group's five largest customers represented approximately 75.5% of the Group's total turnover for the year 2017, with the single largest customer contributing to approximately 33.3% of the Group's total turnover for the year. The aggregate purchase attributable to the Group's five largest suppliers represented approximately 56.2% of the Group's total purchases for the year 2017, with the single largest supplier contributing to approximately 31.6% 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 28 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 73 of the annual report.

Distributable Reserves of the Company

As at 31 December 2017, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Cayman Companies Law amounted to RMB332,747,000 (2016: RMB295,579,000).

Donations

During the year ended 31 December 2017, 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. Xia Zhongping

In accordance with the Articles of Association of the Company, Mr. Yang Qingyun, Mr. Zhang Ming and Ms. Xia Zhongping will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management of the Company are set out from pages 28 to 30 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 2017, 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. Zheng Zhihong ("Mr. Zheng")	Long position	Beneficial owner	4,614,000	0.36%

(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 2017, 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 2017, 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 2017, 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") (Note 1)	Long position	Interest in a controlled corporation[1]	102,700,000	8.04%
Grand York Holdings Limited ("Grand York") (Note 1)	Long position	Beneficial owner	102,700,000	8.04%
China Cinda Asset Management Co., Ltd.	Long position	Custodian	108,000,000	8.45%
Business Century Investments Limited (Note 2)	Long position	Beneficial owner	263,624,020	20.63%

Note:

1. Those 102,700,000 Shares are held by Grand York Holdings Limited, in which Ms. Xiao Xiuyu ("Ms. Xiao") is the controlling shareholder of Grand York Holdings Limited. Accordingly, Ms. Xiao is deemed to be interested in those 102,700,000 Shares for the purpose of the SFO. Ms. Xiao is the sister of Mr. Xiao Zhiyong ("Mr. Xiao"). Mr. Xiao was the former chairman of the Board, executive Director and chief executive officer of the Company. He has resigned with effect from 17 February 2017 due to other business engagements which require more of his dedication (for details of the resignation of Mr. Xiao, please refer to the announcement of the Company dated 20 February 2017).

2. Those 263,624,020 Shares are held by Business Century Investments Limited, in which Ms. Xie Guilin ("Ms. Xie") is the controlling shareholder of Business Century Investments Limited. Accordingly, Ms. Xie is deemed to be interested in those 263,624,020 Shares for the purpose of the SFO.

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 2017.

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.

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.

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.

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 2017, the Company did not enter into any equity-linked agreement.

Connected Transactions

During the year ended 31 December 2017, 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

As 31 December 2017, the number of shares in respect of which share options could be exercisable under the terms of the Share Option Scheme was 1,450,000 shares, representing approximately 0.11% the shares of the Company in issue at that date. All share options are currently held by employees and consultants of the Group.

On 20 May 2016, 20 October 2016 and 31 May 2017, the Company has granted to certain eligible persons (the "Grantees"), a total of 79,800,000 share options, 20,200,000 shares options and 78,350,000 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 announcements dated 20 May 2016, 20 October 2016 and 31 May 2017 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 2017	Grant during the period	Exercised during the period	Lapsed during the period	Balance as at 31 December 2017	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	–	–	(78,350,000)	1,450,000	HK$2.50
Eligible persons, being consultants of the Company and its subsidiaries	31 May 2017	31 May 2017 to 30 May 2020	–	78,350,000	(78,350,000)	–	–	HK$0.30

Pre-emptive Rights

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

Purchase, Sale or Redemption of Securities of the Company

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors' Report

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 2017.

Auditors

The consolidated financial statements of the Group for the year ended 31 December 2017 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, 29 March 2018

Historic Milestone

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.

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.

2002

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

2005

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

2006

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

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".

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".

2009

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

2010

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

2011

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

2012

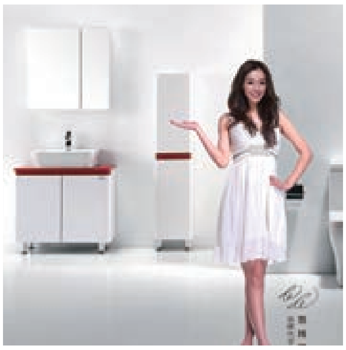
- Bolina Holding Co., Ltd. successfully listed in Hong Kong stock exchange main board.
- Appointing singer Christine Fan to be its brand ambassador.
- Receiving the "2012 Hong Kong Outstanding Enterprise Award".
- Being named "2012 Top 10 Most Trusted Sanitary Brand by Customers", "2012 Top 10 Green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

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.*

2017

- In March 2017, Bolina was awarded the Top Ten Brands of Sanitary Ware from the 2017 China Building Ceramics & Sanitary Ware Top Brands
- In May 2017, Zhangzhou Wanjia Ceramic Industry Co,, Ltd was awarded the China Certificate for Water Conservation Product
- In October 2017, Bolina was entered a cooperation agreement with Tmall.com

Independent Auditor's Report

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 69 to 147, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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 2017. 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 2017, the Group had trade receivable (before impairment) of RMB169,065,000. For the Year ended 31 December 2017, the Group recognised impairment losses on trade receivables of approximately RMB24,669,000 which had been outstanding for over one year, representing approximately 14.6% of the total trade receivables as at 31 December 2017. 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.
Inventory valuation As at 31 December 2017, the Group had inventories of approximately RMB255,739,000 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
Business combination and impairment assessment of goodwill and intangible assets As at 31 December 2017, the Group had goodwill of approximately RMB12,891,000 which relates to the acquisition of Xiamen Mas-Agee Electronic Technology Co., Ltd. ("Xiamen") (see Note 15 to the consolidated financial statements). Also, the Group had intangible assets of approximately RMB35,041,000 arising from the acquisition of Xiamen which relate to the "The Softwares and Patents" as disclosed in Note 16 to the consolidated financial statements. During the year ended 31 December 2017, the Group had not recognised impairment loss of goodwill and intangible assets. For the purpose of the initial recognition of intangible assets in business combination and impairment assessment of goodwill and intangible assets, the Group appointed an independent external valuer to assess the fair value of the identifiable net assets of Xiamen at initial recognition and the recoverable amount of the CGU at the end of the reporting period. We had identified business combination and impairment assessment of goodwill and intangible assets as a key audit matter because significant management judgement was required to determine the key assumptions including estimated future income, operating margins and discount rate, etc. and the amounts involved were significant.	Our major audit procedures in relation to the business combination and impairment assessment of goodwill and intangible assets included the following: – We tested the purchase price allocations in which we especially focused on the valuation of the identifiable assets of Xiamen and the related fair value adjustments. – We evaluated the timing and appropriateness of the accounting treatment and the consideration of the acquisition based on the contractual agreement. – We discussed with management as to whether there was any indicator of impairment. – We obtained cash flow forecasts relating to the CGU prepared by management and approved by the directors of the Company. – We discussed with management and independent external valuer engaged by the Company in relation to the methodology, basis and assumptions used in arriving at the forecasts (e.g. estimated sales growth rate and discount rate etc.) to see whether the methodology and assumptions used were reasonable and appropriate. – We checked, on a sample basis, the accuracy and reliance of the input data used. – We evaluated the competency of the independent external valuer taking into account its experience and qualifications.

Independent Auditor's Report

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.

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.

Independent Auditor's Report

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

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

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

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

Independent Auditor's Report

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

We communicate with 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
29 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	4(a)	**409,763**	359,977
Cost of sales	5(b)	**(389,084)**	(264,521)
Gross profit		**20,679**	95,456
Other income and other gains or losses, net	4(b)	**12,833**	26,703
Selling and distribution expenses		**(285,223)**	(320,201)
Administrative expenses		**(118,750)**	(109,037)
Loss from operations		**(370,461)**	(307,079)
Finance costs	6	**(34,615)**	(35,934)
Loss before tax	5	**(405,076)**	(343,013)
Income tax expense	7	**(6,014)**	(6,588)
Loss for the year		**(411,090)**	(349,601)
Attributable to:			
Owners of the Company		**(412,277)**	(349,601)
Non-controlling interests		**1,187**	–
		(411,090)	(349,601)
Loss per share attributable to ordinary equity holders of the Company			
Basic – For loss for the year	10	**RMB(35) cents**	RMB(35) cents
Diluted – For loss for the year	10	**RMB(35) cents**	RMB(35) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 **RMB'000**	2016 RMB'000
LOSS FOR THE YEAR	**(411,090)**	(349,601)
OTHER COMPREHENSIVE EXPENSE		
Other comprehensive expense to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(16,520)**	(4,206)
OTHER COMPREHENSIVE EXPENSES FOR THE YEAR, NET OF TAX	**(16,520)**	(4,206)
TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR	**(427,610)**	(353,807)
Attributable to:		
Owners of the Company	**(428,797)**	(353,807)
Non-controlling interests	**1,187**	–
	(427,610)	(353,807)

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**321,086**	197,449
Land use right	14	**10,939**	11,236
Goodwill	15	**12,891**	–
Intangible assets	16	**31,838**	128
Available-for-sale investments	17	**2,500**	2,500
Deferred tax assets	26(b)	**1,412**	4,341
Total non-current assets		**380,666**	215,654
CURRENT ASSETS			
Inventories	18	**255,739**	234,758
Trade receivables	19	**142,186**	122,338
Prepayments, deposits and other receivables	20	**252,542**	313,221
Contingent consideration		**5,100**	–
Pledged bank balances	21	**11,463**	23,412
Cash and cash equivalents	21	**102,110**	520,146
Total current assets		**769,140**	1,213,875
CURRENT LIABILITIES			
Trade and bills payables	22	**118,873**	163,141
Other payables and accruals	23	**169,217**	103,776
Amounts due to the shareholders		**14,524**	2,122
Interest-bearing bank borrowings	24	**197,390**	170,700
Corporate bonds	27	**131,959**	128,226
Income tax payable	26(a)	**1,867**	2,531
Total current liabilities		**633,830**	570,496
NET CURRENT ASSETS		**135,310**	643,379
TOTAL ASSETS LESS CURRENT LIABILITIES		**515,976**	859,033

Consolidated Statement of Financial Position

31 December 2017

	Notes	**2017** **RMB'000**	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26(b)	**34,225**	25,914
Corporate bonds	27	**132,887**	129,154
Total non-current liabilities		**167,112**	155,068
Net assets		**348,864**	703,965
EQUITY			
Equity attributable to owners of the Company			
Share capital	28	**10,570**	8,287
Reserves	29	**338,294**	695,678
Total equity		**348,864**	703,965

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Equity attributable to owners of the Company											
	Notes	Share capital RMB'000 note 28	Share premium RMB'000	Capital redemption reserve RMB'000	Discretionary reserve fund RMB'000 note 29(i)	Statutory reserve RMB'000 note 29(ii)	Capital reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000 note 29(iii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 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		–	–	–	–	–	–	–	–	–	–	(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 and 1 January 2017		**8,287**	**337,627**	**164**	**21,894**	**47,191**	**101,081**	**20,550**	**(4,072)**	**171,243**	**703,965**	**-**	**703,965**
Loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(412,277)**	**(412,277)**	**1,187**	**(411,090)**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(16,520)**	**-**	**(16,520)**	**-**	**(16,520)**
Total comprehensive expenses for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(16,520)**	**(412,277)**	**(428,797)**	**1,187**	**(427,610)**
Acquisition of a subsidiary	31	**1,598**	**38,337**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**39,935**	**9,674**	**49,609**
Lapsed of equity-settled share-based payment		**-**	**-**	**-**	**-**	**-**	**-**	**(20,177)**	**-**	**20,177**	**-**	**-**	**-**
Recognition of equity-settled share-based payment		**-**	**-**	**-**	**-**	**-**	**-**	**2,418**	**-**	**-**	**2,418**	**-**	**2,418**
Issue of shares upon exercise of option scheme		**685**	**22,215**	**-**	**-**	**-**	**-**	**(2,418)**	**-**	**-**	**20,482**	**-**	**20,482**
At 31 December 2017		**10,570**	**398,179**	**164**	**21,894**	**47,191**	**101,081**	**373**	**(20,592)**	**(220,857)**	**338,003**	**10,861**	**348,864**

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(405,076)**	(343,013)
Adjustments for:			
Depreciation of property, plant and equipment	11	**17,921**	16,972
Amortisation of land use right	14	**297**	297
Amortisation of intangible assets	16	**3,648**	87
Write-down of inventories to net realisable value	5(c)	**5,953**	260
Reversal of impairment of trade receivables	4(b)	**(9,337)**	(170)
Interest income	4(b)	**(1,040)**	(10,478)
Loss/(gain) on disposal of property, plant and equipment	4(b)	**3,037**	(69)
Fair value gains on derivative instruments	4(b)	**–**	(2,214)
Finance costs	6	**34,615**	35,934
Impairment of trade receivables	5(c)	**24,669**	10,380
Recognition of equity-settled share based payment		**2,418**	24,814
Gain on disposal of a subsidiary	4(b)	**–**	(3,835)
Operating cash flows before movements in working capital change		**(322,895)**	(271,035)
(Increase)/decrease in trade receivables		**(27,784)**	9,419
Decrease/(increase) in prepayments, deposits and other receivables		**117,621**	(340,472)
Increase in inventories		**(21,464)**	(130,269)
(Decrease)/increase in trade payables		**(50,402)**	12,471
Increase in other payables and accruals		**15,809**	126,303
Increase in properties under development		**–**	(3,580)
Cash used in operations		**(289,115)**	(597,163)
Tax paid	26(a)	**(4,195)**	(4,463)
Net cash used in operating activities		**(293,310)**	(601,626)

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(119,909)**	(12,339)
Purchase of intangible assets	**(317)**	–
Proceeds from disposal of property, plant and equipment	**115**	3,968
Net cash effect of disposal of a subsidiary	**–**	278,025
Purchase of investment properties	**–**	(6,476)
Net cash effect of acquisition of a subsidiary	**(5,015)**	–
Interest received	**1,040**	10,478
Net cash (used in)/generated from investing activities	**(124,086)**	273,656
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**–**	(21,252)
Proceeds from bank loans and other borrowings	**159,300**	206,266
Repayment of bank loans and other borrowings	**(170,700)**	(441,204)
Net proceeds from corporate bonds	**–**	121,983
Decrease in pledged bank balances	**11,949**	90,832
Advance from the shareholder	**12,402**	1,949
Interest paid	**(30,680)**	(28,706)
Issue of shares upon exercise of share options	**20,482**	7,061
Net cash generated from/(used in) financing activities	**2,753**	(63,071)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(414,643)**	(391,041)
Cash and cash equivalents at beginning of year	**520,146**	909,894
Effect of foreign exchange rate changes, net	**(3,393)**	1,293
CASH AND CASH EQUIVALENTS AT END OF YEAR	**102,110**	520,146

Notes to Consolidated Financial Statements

31 December 2017

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 Room 1403, 14/F., AXA Centre. 151 Gloucester Road, Wanchai, 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 and research and development, manufacture and sale of massage chairs and massage devices.

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. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. 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 2017

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

The amendments to HKAS 7 require an entity to make disclosures that aim to enable users of financial statements to evaluate changes in liabilities arising from financing activities. Reconciliations of various types of the Group's financing liabilities is disclosed in Notes 24 and Notes 27 to the consolidated financial statements. Other than such additional disclosures, the application of the amendments has not had any material effect on the consolidated financial statements.

The amendments to HKAS 12 clarify when unrealised losses on a debt instrument measured at fair value would give rise to a deductible temporary difference and how to evaluate whether sufficient future taxable profits are available to utilise a deductible temporary difference. The application of the amendments has not had any material effect on the consolidated financial statements.

Annual improvements to HKFRSs (2014–2016 cycle) include an amendment to HKFRS 12 that clarifies that, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with HKFRS 5 *Non-current Assets held for Sale and Discontinued operations*, it is not required to disclose summarised financial information for that subsidiary, joint venture or associate, as required by HKFRS 12 *Disclosure of Interests in Other Entities*.

Notes to Consolidated Financial Statements

31 December 2017

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

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

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 2021

Notes to Consolidated Financial Statements

31 December 2017

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.

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

31 December 2017

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.

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised. The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date. Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

Notes to Consolidated Financial Statements

31 December 2017

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

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions (Continued)

The Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments and hence the Directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

Amendments to HKFRS 4 Insurance Contracts

Amendments to HKFRS 4 are not applicable to the Group as the Company or its subsidiaries are not engaged in insurance business.

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

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

The Group did not enter into these transactions in the current year. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that an entity should transfer a property to, or from, investment property when, and only when, there is a change in use. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendments emphasize that a change in management's intentions for the use of a property, in isolation, does not provide evidence of a change in use. Further, the amendments clarify that the list of circumstances set out in paragraph 57 of HKAS 40 are examples only.

The amendments require an entity to apply the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (i.e. the dale of initial application). At the date of initial application, an entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

The Directors of the Company do not anticipate any impact as the Group did not have any transfers in the past.

Notes to Consolidated Financial Statements

31 December 2017

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

HK (IFRIC) Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Interpretation concludes that the date of the transaction for the abovementioned purpose is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Directors of the Company do not anticipate that the application of the interpretation will have a material impact on the Group's consolidated financial statements.

HK (IFRIC) interpretation 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in HKAS 12 when there is uncertainty over income tax treatments.

The Directors of the Company do not anticipate that the application of the Interpretation will have a material impact on the Group's consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

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

(b) rights arising from other contractual arrangements; and

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

Notes to Consolidated Financial Statements

31 December 2017

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

31 December 2017

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 2017

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

Notes to Consolidated Financial Statements

31 December 2017

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 2017

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
Patents	5 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

31 December 2017

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

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

Notes to Consolidated Financial Statements

31 December 2017

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 2017

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.

Notes to Consolidated Financial Statements

31 December 2017

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.

Notes to Consolidated Financial Statements

31 December 2017

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.

Notes to Consolidated Financial Statements

31 December 2017

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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31 December 2017

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 non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

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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

31 December 2017

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)

Estimation uncertainty (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.

Notes to Consolidated Financial Statements

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3. OPERATING SEGMENT INFORMATION

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

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

(b) the massage devices segment – research and development, manufacture and sale of massage chairs and massage devices.

(i) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

	Sanitary ware		**Massage devices**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue:						
Revenue from external customers	**388,902**	359,977	**20,861**	–	**409,763**	359,977
Segment results	**(359,922)**	(288,080)	**2,423**	–	**(357,499)**	(288,080)
Other income and unallocated gains					**2,390**	405
Corporate and other unallocated expenses					**(15,352)**	(19,404)
Finance costs					**(34,615)**	(35,934)
Loss before tax					**(405,076)**	(343,013)
Income tax expense					**(6,014)**	(6,588)
					(411,090)	(349,601)

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

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3. OPERATING SEGMENT INFORMATION (Continued)

(ii) Segment assets and liabilities

The following tables present the Group's segment information in terms of assets and liabilities as at 31 December 2017.

As at 31 December 2017

	Sanitary ware RMB'000	Massage devices RMB'000	Total RMB'000
Segment assets	**1,068,427**	**88,870**	**1,157,297**
Reconciliation:			
Elimination of intersegment receivables			**(8,950)**
Corporate and other unallocated assets			**1,459**
Total assets			**1,149,806**
Segment liabilities	**473,685**	**71,361**	**545,046**
Reconciliation:			
Elimination of intersegment payables			**(8,950)**
Corporate and other unallocated liabilities			**264,846**
Total liabilities			**800,942**

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

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

There is a single segment in 2016.

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3. OPERATING SEGMENT INFORMATION (Continued)

(iii) Geographical information

The following tables present the Group's geographical information in terms of revenue for the years ended 31 December 2017 and 2016, and non-current assets as at 31 December 2017 and 2016.

(a) Revenue from external customers

	Sanitary ware		Massage devices		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
America	**214,129**	251,632	**1,009**	–	**215,138**	251,632
Mainland China	**157,190**	87,561	**16,084**	–	**173,274**	87,561
Europe	**14,613**	15,968	**542**	–	**15,155**	15,968
Asia (excluding Mainland China)	**1,631**	4,646	**3,226**	–	**4,857**	4,646
Others	**1,339**	170	**–**	–	**1,339**	170
	388,902	359,977	**20,861**	–	**409,763**	359,977

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.

(iv) Information about major customers

Revenue from two of the Group's customers, amounting to RMB154,692,000 and RMB118,034,000 (2016: two customers amounting to RMB145,223,000 and RMB69,533,000) individually accounted for over 10% of the Group's total revenue.

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4. REVENUE, OTHER INCOME AND OTHER GAINS OR LOSSES, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after netting off sales rebates and sales return for the years ended 31 December 2017 and 2016.

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

(a) Revenue

	2017	2016
	RMB'000	RMB'000
Revenue from the sale of sanitary ware	**388,902**	359,977
Revenue from of massage chairs and massage devices	**20,861**	–
	409,763	359,977

(b) Other income and other gains or losses, net

	2017	2016
	RMB'000	RMB'000
Other income		
Government grants*	**1,783**	288
Bank interest income	**1,040**	10,478
Foreign exchange differences, net	**(1,606)**	6,653
Others	**2,279**	2,996
	3,496	20,415
Other gains or losses, net		
Fair value gains, net:		
Derivative instruments	**–**	2,214
Gain on disposal of items of property, plant and equipment	**–**	69
Gain on disposal of a subsidiary	**–**	3,835
Reversal of impairment of trade receivables	**9,337**	170
	9,337	6,288
Other income and other gains or losses, net	**12,833**	26,703

* 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 2017.

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5. LOSS BEFORE TAX

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

		2017 RMB'000	2016 RMB'000
(a)	**Employee benefit expense (including directors' and chief executive's remuneration)**		
	Wages and salaries	**109,883**	79,564
	Pension scheme contributions, social welfare and other welfare	**23,265**	10,821
	Equity-settled share based payments for employees	**–**	20,550
		133,148	110,935
(b)	**Cost of sales**		
	Cost of inventories sold	**244,961**	153,061
	Others	**144,123**	111,460
		389,084	264,521
(c)	**Other items**		
	Depreciation of property, plant and equipment*	**17,921**	16,972
	Amortisation of land use right	**297**	297
	Amortisation of intangible assets	**3,648**	87
	Operating lease expenses*	**16,559**	12,583
	Advertisement and promotion expenses	**111,112**	90,003
	Logistics expenses	**9,735**	10,567
	Research and development expenses*	**6,469**	15,980
	Provision for impairment of trade receivables**	**24,669**	10,380
	Loss on disposal of items of property, plant and equipment	**3,037**	–
	Write-down of inventories to net realisable value***	**5,953**	260
	Auditors' remuneration	**1,834**	1,641
	Subsidise to customers	**128,176**	156,592
	Equity-settled share based payments for consultants	**2,418**	4,264

* The depreciation of property, plant and equipment of RMB16,741,000 (2016: RMB10,904,000), the operating lease expenses of RMB15,408,000 (2016: RMB10,644,000) and the research and development expenses of RMB2,616,000 (2016: RMB3,604,000) 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 receivable 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

	2017 RMB'000	2016 RMB'000
Interest expense on bank borrowings wholly repayable within five years	**9,796**	13,930
Interest expense on other borrowings wholly repayable within five years	**512**	671
Interest expense on corporate bonds wholly repayable within five years	**24,307**	20,547
Total interest expenses	**34,615**	35,148
Unrealised loss on interest rate swaps	**–**	786
	34,615	35,934

7. INCOME TAX EXPENSE

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

	2017 RMB'000	2016 RMB'000
Current – Mainland China Enterprise Income Tax	**3,499**	3,674
Deferred tax	**2,515**	2,914
	6,014	6,588

Subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% during the year ended 31 December 2017 (2016: 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 2017 (2016: Nil).

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years.

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

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7. INCOME TAX EXPENSE (Continued)

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

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% (2016: 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:

	2017 **RMB'000**	2016 RMB'000
Loss before tax	**(405,076)**	(343,013)
Tax at the statutory tax rate (25%)	**(101,269)**	(85,753)
Lower tax rates for specific provinces or enacted by local authorities	**8,878**	13,583
Adjustments in respect of current tax of previous year	**–**	(87)
Expenses not deductible for tax purposes	**47,005**	75,848
Tax loss not recognised	**51,400**	2,997
Tax charge	**6,014**	6,588

Notes to Consolidated Financial Statements

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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:

	2017 **RMB'000**	2016 RMB'000
Fees	**3,836**	5,854
Other emoluments:		
Salaries, allowances and benefits in kind	**964**	792
Discretionary bonuses	**–**	106
Pension scheme contributions	**44**	33
	1,008	931
	4,844	6,785

(a) Independent non-executive directors

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

	2017 **RMB'000**	2016 RMB'000
Mr. TONG Jifeng (note i)	**16**	69
Mr. LIN Shimao (note ii)	**–**	29
Prof. SO Wai-man, Raymond (note iii)	**–**	97
Mr. JIANG Guoxiang	**40**	38
Mr. WONG Yuk Lun, Alan (note iv)	**37**	75
Mr. ZHANG Shujun (note v)	**48**	**–**
Ms. XIA Zhongping (note vi)	**31**	–
Ms. Kwok Wai Ling (note vii)	**37**	–
	209	308

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

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

(v) Mr. Zhang Shujun has been appointed as independent non-executive Director since 27 March 2017.

(vi) Ms. XIA Zhongping has been appointed as independent non-executive Director since 16 August 2017.

(vii) Ms. Kwok Wai Ling has been appointed as independent non-executive Director since 27 March 2017 and resigned on 3 August 2017.

Notes to Consolidated Financial Statements

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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 (2016: Nil).

(b) Executive directors and the chief executive

	2017				
	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)	348	475	–	11	834
Mr. ZHENG Zhihong	1,438	71	–	7	1,516
Executive directors					
Ms. YE Xiaohong (note iii)	261	148	–	9	418
Mr. YANG Qingyun	1,045	122	–	9	1,176
Mr. ZHANG Ming	105	–	–	–	105
Mr. LU Jianqing (note iv)	261	148	–	9	418
Ms. SUN Yumei (note v)	48	–	–	–	48
Mr. LAM Ying Choi Donny (note vi)	120	–	–	–	120
	3,626	964	–	45	4,635

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31 December 2017

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

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

	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	–	25	–	–	25
Mr. ZHENG Zhihong	–	5	–	–	5
Mr. LU Jianqing	1,127	122	17	8	1,274
	5,548	793	104	33	6,478

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. Lu Jianqing resigned as executive director since 27 March 2017.

(v) Ms. Sun Yumei has been appointed as executive director since 27 March 2017.

(vi) Mr. Lam Ying Choi, Donny has been appointed as executive director since 27 March 2017.

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 2017 included three directors and the chief executive (2016: 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 (2016: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries, bonuses, allowances and benefits in kind	**435**	1,262
Pension scheme contributions	**–**	–
	435	1,262

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	
	2017	2016
HK$100,000 to HK$500,000	**1**	–
HK$500,001 to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	1

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

The calculation of the basic loss per share amounts for the year ended 31 December 2017 is based on the loss for the year attributable to the ordinary equity holders of the Company of RMB412,277,000 (2016: loss for the year attributable to the ordinary equity holders of the Company of RMB349,601,000) and the weighted average number of ordinary shares of 1,183,780,000 (2016: 1,000,156,000) during the year.

For the year ended 31 December 2017 and 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.

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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 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
Cost:							
At 1 January 2017	**18,749**	**126,420**	**106,366**	**5,898**	**6,940**	**42,151**	**306,524**
Additions	**–**	**–**	**90,642**	**126**	**372**	**28,769**	**119,909**
Additions from acquisition	**–**	**26,000**	**3,829**	**1,149**	**368**	**178**	**31,524**
Transfer	**–**	**259**	**13,912**	**–**	**–**	**(14,171)**	**–**
Disposals	**–**	**–**	**(23,220)**	**(83)**	**(2,237)**	**–**	**(25,540)**
At 31 December 2017	**18,749**	**152,679**	**191,529**	**7,090**	**5,443**	**56,927**	**432,417**
Accumulated depreciation:							
At 1 January 2017	**18,226**	**36,309**	**45,293**	**4,378**	**4,869**	**–**	**109,075**
Additions from acquisition	**–**	**4,485**	**1,375**	**675**	**188**	**–**	**6,723**
Depreciation provided during the year	**143**	**6,248**	**10,349**	**507**	**674**	**–**	**17,921**
Disposals	**–**	**–**	**(20,685)**	**(68)**	**(1,635)**	**–**	**(22,388)**
At 31 December 2017	**18,369**	**47,042**	**36,332**	**5,492**	**4,096**	**–**	**111,331**
Net carrying amount:							
At 31 December 2017	**380**	**105,637**	**155,197**	**1,598**	**1,347**	**56,927**	**321,086**

At 31 December 2017, certain of the Group's buildings with an aggregate net carrying amount of approximately RMB54,895,000 (2016: RMB58,640,000) were pledged as security for the Group's bank borrowings (note 25(a)(ii)).

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12. PROPERTIES UNDER DEVELOPMENT

	2017	2016
	RMB'000	RMB'000
At the beginning of the year	**–**	425,425
Acquisition of a subsidiary	**–**	–
Addition	**–**	9,276
Disposal of a subsidiary	**–**	(434,701)
At the end of the year	**–**	–

13. INVESTMENT PROPERTIES

	2017	2016
	RMB'000	RMB'000
At the beginning of the year	**–**	291,442
Acquisition of a subsidiary	**–**	–
Addition	**–**	6,476
Disposal of a subsidiary	**–**	(297,918)
At the end of the year	**–**	–

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14. LAND USE RIGHT

	2017 **RMB'000**	2016 RMB'000
Cost:		
At beginning and end of the year	**14,421**	14,421
Amortisation:		
At beginning of the year	**3,185**	2,888
Charge for the year	**297**	297
At end of the year	**3,482**	3,185
Net carrying amount:		
At end of the year	**10,939**	11,236

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 38 to 39 years.

At 31 December 2017, certain of the Group's land use right with an aggregate net book value of approximately RMB10,939,000 (2016: RMB11,236,000) were pledged as security for the Group's bank borrowings (note 24(a)(i)).

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15. GOODWILL

	2017 **RMB'000**	2016 RMB' 000
At beginning of the year	**–**	35,915
Acquisition of a subsidiary	**12,891**	–
Disposal of a subsidiary	**–**	(35,915)
At end of the year	**12,891**	–

During the year ended 31 December 2017, the Group acquired 51% of issued share capital of Xiamen Mas-Agee Electronic Technology Co. Ltd. The Group recognised goodwill of approximately RMB12,891,000 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 2017.

The recoverable amount of this CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to cash flow projections is 13.2% per annum. The growth rate used to extrapolate the cash flows of the group of cash-generating units beyond the five-year period is 3% per annum which based on past performance and its expectations in relation to market development. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the past performance. Management believed that any reasonably possible change in any of these assumption would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

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16. INTANGIBLE ASSETS

	Brand name RMB'000	Software RMB'000	Patents RMB'000 *(note)*	Total RMB'000
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
Cost:				
At 1 January 2017	**320**	**363**	**–**	**683**
Additions	**–**	**310**	**7**	**317**
Additions from acquisition	**–**	**39**	**35,002**	**35,041**
At 31 December 2017	**320**	**712**	**35,009**	**36,041**
Accumulated amortisation:				
At 1 January 2017	**287**	**268**	**–**	**555**
Amortisation provided during the year	**33**	**85**	**3,530**	**3,648**
At 31 December 2017	**320**	**353**	**3,530**	**4,203**
Net carrying amount:				
At 31 December 2017	**–**	**359**	**31,479**	**31,838**

Note: Software and patents included HK$35,041,000 were incurred from acquisition of Xiamen Mas-Agee Electronic Technology Co. Ltd. on 13 July 2017. The patents with 5 years terminal life.

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17. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	RMB'000	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

	2017	2016
	RMB'000	RMB'000
Raw materials	**15,600**	6,933
Accessories	**9,390**	10,508
Work in progress	**63,187**	56,449
Finished goods	**164,666**	159,281
Wrappage	**2,896**	1,587
	255,739	234,758

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19. TRADE RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Trade receivables	**169,065**	133,885
Impairment	**(26,879)**	(11,547)
	142,186	122,338

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 follow:

	2017	2016
	RMB'000	RMB'000
Within 3 months	**101,918**	87,884
More than 3 months but less than 1 year	**40,268**	34,454
	142,186	122,338

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

	2017	2016
	RMB'000	RMB'000
Neither past due nor impaired	**120,882**	98,974
Less than 3 months past due	**19,485**	23,364
3 to 12 months past due	**1,819**	–
	142,186	122,338

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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 follow:

	2017 **RMB'000**	2016 RMB'000
At beginning of the year	**11,547**	1,337
Impairment losses recognised	**24,669**	10,380
Reversal of impairment	**(9,337)**	(170)
At end of the year	**26,879**	11,547

Included in the above provision for impairment of trade receivables as at 31 December 2017 is a provision for individually impaired trade receivables of RMB26,879,000 (2016: RMB11,547,000).

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. PREPAYMENT, DEPOSIT AND OTHER RECEIVABLE

	2017 **RMB'000**	2016 RMB'000
Prepayment and deposit to suppliers	**101,943**	90,003
Deposit and prepayments to chain supermarkets	**47,899**	1,344
Deposit and prepayments to distribution channels *(note)*	**71,122**	199,298
Others	**35,728**	26,726
	256,692	317,371
Impairment on other receivables	**(4,150)**	(4,150)
	252,542	313,221

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

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20. PREPAYMENT, DEPOSIT AND OTHER RECEIVABLE (Continued)

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

	2017	2016
	RMB'000	RMB'000
At beginning of the year	**4,150**	4,150
Impairment loss recognised	**–**	–
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 (2016: RMB4,150,000) which have been considered not receivable. The impairment recognised represent the difference between the carrying amount of these other receivables and the present value of the expected liquidated proceeds. The Group does not hold any collateral over these balance.

21. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	2017	2016
	RMB'000	RMB'000
Cash and bank balances	**102,110**	520,146
Time deposits	**11,463**	23,412
	113,573	543,558
Less: Pledged bank balances		
Short-term bank deposits	**(11,463)**	(23,412)
Cash and cash equivalents	**102,110**	520,146

At 31 December 2017, the cash and bank balances of the Group denominated in RMB amounted to RMB111,234,000 (2016: RMB535,854,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. 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

	2017 RMB'000	2016 RMB'000
Trade payables	**87,388**	116,286
Bills payables	**31,485**	46,855
	118,873	163,141

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:

	2017 RMB'000	2016 RMB'000
Within 3 months	**71,529**	80,775
3 to 6 months	**23,707**	62,100
6 to 12 months	**12,433**	2,900
Over 12 months	**11,204**	17,366
	118,873	163,141

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

23. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Payables for purchase of items of property, plant and equipment	**19,253**	20,121
Advances received	**61,777**	14,237
Staff payroll and welfare payables	**41,751**	31,188
Payables for sales rebates	**524**	315
Other taxes payable	**2,112**	481
Others	**43,800**	37,434
	169,217	103,776

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24. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank borrowings	**4.3-10**	**2018**	**197,390**	4-10	2017	170,700

Interest-bearing bank borrowings represent:

	2017 RMB'000	2016 RMB'000
– Secured (note (a))	**165,190**	134,200
– Guaranteed (note (b))	**32,200**	36,500
	197,390	170,700

Notes:

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

(i) mortgages over the Group's land use right situated in Mainland China, which had an aggregate carrying value of approximately RMB10,939,000 as at 31 December 2017 (2016: RMB11,236,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB54,895,000 as at 31 December 2017 (2016: RMB58,640,000);

(iii) mortgages over the Group's pledged bank balances which amounted to RMB11,463,000 as at 31 December 2017 (2016: RMB23,412,000); and

(b) Certain of the Group's bank borrowings which amounted to RMB4,000,000 as at 31 December 2017 (2016: RMB26,500,000) were guaranteed by the shareholder. Certain of the Group's bank borrowings which amounted to RMB28,200,000 as at 31 December 2017 (2016: RMB10,000,000) were guaranteed by certain third parties.

Movement of the bank borrowings are as follows:

	2017 RMB'000	2016 RMB'000
At the Beginning of the year	**170,700**	442,367
Bank loans repaid	**(170,700)**	(441,204)
Bank loans raised	**159,300**	206,266
Disposal of a subsidiary	**–**	(40,000)
Acquisition of a subsidiary	**38,090**	–
Exchange realignment	**–**	3,271
At the end of the year	**197,390**	170,700

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25. 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% (2016: 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 2017 and 2016, the Group had no significant obligation apart from the contribution as stated above.

26. INCOME TAX PAYABLE AND DEFERRED TAX

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

	2017 **RMB'000**	2016 RMB'000
At beginning of the year	**2,531**	3,320
Provision for current tax for the year	**3,499**	3,674
Acquisition of a subsidiary	**32**	–
Current tax paid	**(4,195)**	(4,463)
At end of the year	**1,867**	2,531

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26. INCOME TAX PAYABLE AND DEFERRED TAX (Continued)

(b) Deferred tax assets and liabilities recognised

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

Deferred tax assets:

	Accruals	Others	Total
	RMB'000	RMB'000	RMB'000
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 and at 1 January 2017	**3,305**	**1,036**	**4,341**
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 7)	**(2,929)**	**–**	**(2,929)**
At 31 December 2017	**376**	**1,036**	**1,412**

The Group has tax losses arising in Mainland China of RMB501,723,000 (2016: RMB298,906,000) 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 RMB124,498,000 (2016: RMB120,282,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of certain of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is uncertain that taxable profits will be available against which the tax losses can be utilised.

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26. INCOME TAX PAYABLE AND DEFERRED TAX (Continued)

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

Deferred tax liabilities:

	Accelerated depreciation for tax purposes RMB'000	Withholding tax RMB'000	Revaluation of property under development and investment properties RMB'000	Intangible assets RMB'000	Others RMB'000	Total RMB'000
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 and at 1 January 2017	**3,157**	**22,137**	**–**	**–**	**620**	**25,914**
Acquisition of a subsidiary	**–**	**–**	**–**	**8,725**	**–**	**8,725**
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 7)	**1,078**	**–**	**–**	**(872)**	**(620)**	**(414)**
At 31 December 2017	**4,235**	**22,137**	**–**	**7,853**	**–**	**34,225**

27. CORPORATE BONDS

	2017 RMB'000	2016 RMB'000
At the beginning of the year	**257,380**	123,466
Corporate bonds issued	**–**	121,983
Imputed interest	**3,935**	7,228
Exchange realignment	**3,531**	4,703
At end of the year	**264,846**	257,380
Less: Current position	**131,959**	128,226
Non-current position	**132,887**	129,154

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27. CORPORATE BONDS (Continued)

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"). However, the Company did not redeem the bond before 31 December 2017. The Company is now actively negotiating with the PC Securities Limited for the settlement method(s) and is also seeking for legal advice for the matter, and will adopt all effective measures to safeguard the interest of investors and the Company.

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 annual interest rate of 8.16% to 9.16%. As at 31 December 2017, the carrying amount of the corporate bonds was approximately RMB264,846,000 (2016: RMB257,380,000).

28. 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 2016, 1 January 2017 and 31 December 2017	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 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 option *(Note 2)*	20,200,000	177	11,148
As at 31 December 2016 and 1 January 2017	**1,015,372,000**	**8,287**	**337,627**
Issue of shares as consideration paid *(Note 3)*	**183,896,220**	**1,598**	**38,337**
Exercise of share option *(Note 4)*	**78,350,000**	**685**	**22,215**
As at 31 December 2017	**1,277,618,220**	**10,570**	**398,179**

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28. SHARE CAPITAL (Continued)

Notes:

1. Under the Sale and Purchase Agreement of acquisition of subsidiary, the completion took place on 2 May 2017 and the Company has allotted and issued 183,896,220 Consideration Shares at HK$0.01 to the Vendors.

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.

3. On 4 May 2017, 183,896,220 new ordinary share of the Company were issued as the consideration shares for the acquisition of Xiamen Mas-Agee Electronic Technology Co., Ltd. Share capital and share premium of approximately RMB1,598,000 and RMB38,337,000 respectively were recorded based on the quoted price of the shares as the date of acquisition.

4. On 1 June 2017, 78,350,000 share options were exercised to subscribe for 78,350,000 ordinary share in the Company at a consideration of RMB20,482,000 of which RMB685,000 was credited to share capital and the balance of RMB19,797,000 was credited to the share premium account. Amounts of approximately RMB2,418,000 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 2017, all issued shares are registered, fully paid and divided into 1,277,618,220 shares (2016: 1,015,372,000 shares) of HK$0.01 each.

29. RESERVES

The amounts of the Group's reserves and movements therein for the years ended 31 December 2017 and 2016 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 39 to the consolidated 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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30. 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 talent. The Company has granted share options on 20 May 2016 ("Batch 1"), 20 October 2016 ("Batch 2") and 31 May 2017 ("Batch 3").

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. 78,350,000 of share options were lapsed during the year and 1,450,000 of share options were exercisable.

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 the year ended 31 December 2016.

For Batch 3, the Company has granted to certain eligible persons being employees of the Company and its subsidiaries on 31 May 2017, subject to acceptance by the Grantees, a total of 78,350,000 share options to subscribe for 78,350,000 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. 31 May 2017). The exercise price is HK$0.30. All options were exercised during the year.

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

	31 December 2017		31 December 2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HK$2.50**	**79,800,000**	–	–
Granted during the year	**HK$0.30**	**78,350,000**	HK$2.80	100,000,000
Lapsed during the year	**HK$2.50**	**(78,350,000)**	–	–
Exercised during the year	**HK$0.30**	**(78,350,000)**	HK$0.40	(20,200,000)
Outstanding at the end of the year	**HK$2.50**	**1,450,000**	HK$2.50	79,800,000
Exercisable at the end of the year	**HK$2.50**	**1,450,000**	HK$2.50	79,800,000

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30. EQUITY SETTLED SHARE-BASED TRANSACTION (Continued)

Share option (Continued)

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

During the year ended 31 December 2017, 78,350,000 share options with weighted average exercise price of HK$0.3 were granted and all the share option with exercise price of HK$0.30 were became exercisable as at 31 December 2017.

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

The share options outstanding as at 31 December 2017 had an exercise price of HK$2.50 and a weighted average remaining contractual life of 1.5 years (As at 31 December 2016: 2.5 years).

(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 and Sino-Infinite Appraisal Limited, based on Black-Scholes pricing model. The assumptions used are as follows:

Fair value of share options and assumptions	Batch 1	Batch 2	Batch 3
Fair value at measurement date	HK$0.31	HK$0.24	HK$0.04
Share price	HK$1.94	HK$0.40	HK$0.30
Exercise price	HK$2.50	HK$0.40	HK$0.30
Expected volatility (expressed as average volatility used in the modelling under binomial model)	50%	139%	108%
Option life	3 years	3 years	3 years
Expected term	1.50	1.50	1.50
Expected dividends	0.00%	0.00%	0.00%
Risk-free interest rate (based on Hong Kong Government Bond yield)	0.75%	0.83%	0.74%

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.

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31. BUSINESS COMBINATION

On 13 July 2017, the Group acquired 51% interests in Xiamen Mas-Agee Electronic Technology Co., Ltd. ("Xiamen") at a consideration consist of cash RMB14,300,000 and 183,896,220 ordinary shares of the Company. Xiamen is engaged in the research and development, manufacture and sale of massage chairs and massage devices.

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

	Fair value recognized on acquisition RMB'000
Property, plant and equipment	24,801
Intangible assets	35,041
Inventories	5,470
Trade receivables	4,323
Prepayments, deposit and other receivables	30,241
Amount due from a related company	23,558
Amount due from holding company	2,234
Contingent consideration	5,100
Cash and cash equivalent	335
Trade payables	(6,134)
Other payables and accruals	(24,370)
Amount due to directors	(2,734)
Income tax payables	(32)
Interest-bearing bank borrowings	(38,090)
Deferred tax liabilities	(8,725)
Total identifiable net assets at fair value	51,018
Non-controlling interests	(9,674)
	41,344
Goodwill on acquisition	12,891
Total	54,235
Consideration transferred	
Satisfied by cash	5,350
Consideration payable	8,950
Satisfied by shares	39,935
	54,235

Notes to Consolidated Financial Statements

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31. BUSINESS COMBINATION (Continued)

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

	RMB'000
Cash consideration	(5,350)
Cash and bank balances acquired	335
Net outflow of cash and cash equivalents included in cash flows from investing activities	(5,015)

Since the acquisition, Xiamen contributed RMB20,861,000 to the Group's revenue and RMB2,423,000 profit to the consolidated loss for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue of the Group and loss of the Group for the year ended 31 December 2017 would have been RMB419,537,000 and RMB416,224,000 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 2017, nor is it intended to be a projection of future results.

Notes to Consolidated Financial Statements

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32. 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:

2017

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Trade receivables	142,186	–	142,186
Available-for-sale investments	–	2,500	2,500
Financial assets included in deposits and other receivables	131,545	–	131,545
Contingent consideration	5,100	–	5,100
Pledged bank balances	11,463	–	11,463
Cash and cash equivalents	102,110	–	102,110
	392,404	2,500	394,904

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	118,873
Financial liabilities included in other payables and accruals	169,217
Interest-bearing bank and other borrowings	197,390
Corporate bonds	264,846
Amounts due to the shareholders	14,524
	764,850

Notes to Consolidated Financial Statements

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32. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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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33. CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no significant contingent liabilities (2016: Nil).

34. 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:

	2017	2016
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**3,431**	4,531
	3,431	4,531
Authorised, but not contracted for:		
Property, plant and equipment	**70,778**	79,559
	74,209	84,090

(b) Operating lease commitments

As lessee

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	2017	2016
	RMB'000	RMB'000
Within 1 year	**991**	919
After 1 year but within 5 years	**524**	1,329
	1,515	2,248

Notes to Consolidated Financial Statements

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35. 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 24 to the consolidated financial statements.

36. 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 2017 and 2016:

		2017	2016
		RMB'000	RMB'000
(i)	Advances from/(repayment to) the shareholders:	**(5,486)**	1,949
(ii)	Loans from the shareholder:	**(5,703)**	–
(iii)	Loan interest to shareholder	**(1,213)**	–
		(12,402)	1,949

(iv) Certain of the Group's bank borrowings which amounted to RMB4,000,000 as at 31 December 2017 (2016: RMB26,500,000) were guaranteed by the shareholder. Certain of the Group's bank borrowings which amounted to RMB28,200,000 as at 31 December 2017 (2016: RMB10,000,000), were guaranteed by shareholder and certain third parties.

(v) Loans from the shareholder are unsecured, with interest rate 24% per annum and repayable on demand.

Notes to Consolidated Financial Statements

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36. 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 2017:

(i) Due to the shareholders:

	2017 **RMB'000**	2016 RMB'000
Non-trade related		
– Mr. Xiao Zhiyong (note i)	**5,942**	2,122
– Mr. Zheng Zhihong (note ii)	**8,582**	–
	14,524	2,122

Balances RMB7,608,000 with the shareholder were unsecured and non-interest-bearing and had no fixed repayment terms.

Balances RMB6,916,000 with the shareholder were unsecured, with interest rate 24% per annum and repayable on demand.

Note:

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

(ii) On 17 February 2017, Mr. Zheng Zhihong has appointed as chairman of the Board of the Group.

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

(c) Compensation of key management personnel

	2017 **RMB'000**	2016 RMB'000
Salaries and short-term employee benefits	**1,071**	1,345
Pension scheme contributions and social welfare	**19**	49
Total compensation paid to key management personnel	**1,090**	1,394

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

	Number of individuals	
Emoluments bands	**2017**	2016
Nil to HK$1,000,000	**5**	4
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.

Notes to Consolidated Financial Statements

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank borrowings, 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 consolidated 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 borrowings.

The Group currently does not have an interest rate hedging policy for the Year ended 31 December 2017. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

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 RMB1,165,000 (2016: RMB1,423,000) for the Year ended 31 December 2017.

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 59% and 64% of the Group's sales for the years ended 31 December 2017 and 2016, respectively, were denominated in US$ and undertaken by these operating units.

Notes to Consolidated Financial Statements

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity analysis 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	
		2017	2016
		RMB'000	RMB'000
If RMB weakens against the US$	(100)	**594**	1,016
If RMB strengthens against the US$	100	**(594)**	(1,016)
If RMB weakens against the HK$	(100)	**(16)**	(53)
If RMB strengthens against the HK$	100	**16**	53

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 2017 and 2016, 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 2017, the Group had certain concentrations of credit risk as 15% (2016: 29%) and 62% (2016: 89%) 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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37. 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:

	2017				
	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	**–**	**48,331**	**154,585**	**–**	**202,916**
Corporate bonds	**131,959**	**–**	**–**	**133,890**	**265,849**
Trade payables	**23,637**	**95,236**	**–**	**–**	**118,873**
Other payables and accruals	**57,737**	**29,759**	**73,902**	**7,819**	**169,217**
Amounts due to shareholders	**14,524**	**–**	**–**	**–**	**14,524**
	227,857	**173,326**	**228,487**	**141,709**	**771,379**

	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
Amounts due to shareholders	2,122	–	–	–	2,122
	82,989	188,854	169,401	274,311	715,555

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37. 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 2017.

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 2017 is 141.5% (2016: 67.5%).

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38. STATEMENT OF FINANCIAL POSITION FOR THE COMPANY

	Note	**2017 RMB'000**	2016 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		**10,000**	170,886
Amounts due from subsidiaries		**585,481**	558,176
Total non-current assets		**595,481**	729,062
CURRENT ASSETS			
Dividend receivable from subsidiaries		**25,372**	26,525
Prepayments, deposits and other receivables		**218**	191
Cash and cash equivalents		**1,240**	4,985
Total current assets		**26,830**	31,701
CURRENT LIABILITIES			
Dividend payable		**–**	569
Other payables and accruals		**1,705**	–
Amount due to the shareholder		**6,916**	–
Corporate bonds		**131,959**	128,226
Total current liabilities		**140,580**	128,795
Total assets less current liabilities		**481,731**	631,968
NON-CURRENT LIABILITIES			
Corporate bonds		**132,887**	129,154
Total non-current liabilities		**132,887**	129,154
Net Assets		**348,844**	502,814
EQUITY			
Share capital		**10,570**	8,288
Reserves	(a)	**338,274**	494,526
Total equity		**348,844**	502,814

The Company's statement of financial position was approved and authorised for issue by the board of directors on 29 March 2018 and are signed on its behalf by:

Zheng Zhihong
Director

Yang Qingyun
Director

Notes to Consolidated Financial Statements

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38. 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	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	170,886	347,615	48	–	10,039	(5,393)	523,195
Total comprehensive income for the year	–	(9,988)	116	20,550	7,412	(46,759)	(28,669)
At 31 December 2016 and 1 January 2017	170,886	337,627	164	20,550	17,451	(52,152)	494,526
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(22,461)**	**(194,343)**	**(216,804)**
Acquisition of a subsidiary	**–**	**38,337**	**–**	**–**	**–**	**–**	**38,337**
Lapsed of equity-settled share-based payment	**–**	**–**	**–**	**(20,177)**	**–**	**20,177**	**–**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**2,418**	**–**	**–**	**2,418**
Issue of share under share option scheme	**–**	**22,215**	**–**	**(2,418)**	**–**	**–**	**19,797**
At 31 December 2017	**170,886**	**398,179**	**164**	**373**	**(5,010)**	**(226,318)**	**338,274**

* *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.*

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the subsidiaries at 31 December 2017 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 %	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

Notes to Consolidated Financial Statements

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39. 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		Principal activities
			Direct %	Indirect %	
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
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
廈門凱浦瑞電子科技有限公司 (Xiamen Mas-Agee Electronic Technology Co. Ltd.)	Xiamen, the PRC 2009, limited liability company	Registered and paid-in capital of RMB35,000,000	–	51%	research and development manufacture and sale of massage chairs and massage devices

Notes to Consolidated Financial Statements

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39. 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

40. MATERIAL NON-CONTROLLING INTERESTS

For the period from 13 July 2017 to 31 December 2017, included in the consolidated statement of profit or loss and other comprehensive income, the profit attributed to the total non-controlling interest was approximately RMB1,187,000, which was attributed to Xiamen Mas-Agee Electronic Technology Co. Ltd ("Xiamen"). There was no transactions with non-controlling interests.

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

	13 July 2017 to 31 December 2017 %
Percentage of equity interest held by non-controlling interests	49

Notes to Consolidated Financial Statements

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40. MATERIAL NON-CONTROLLING INTERESTS (Continued)

Summarised financial information for the subsidiary as set out below:

Summarised statement of financial position of Xiamen

	2017 RMB'000
Non-current assets	24,739
Current assets	93,211
Total assets	117,950
Non-current liabilities	95,785
Equity	22,165

Summarised statement of profit or loss of Xiamen

	13 July 2017 to 31 December 2017 RMB'000
Revenue	20,861
Profit before income tax	2,423
Taxation	–
Profit for the year	2,423
Other comprehensive income	–
Total comprehensive income	2,423
Total comprehensive income allocated to non-controlling interests	1,187

Summarised statement of cash flow of Xiamen

Net cash used in operating activities	(2,183)
Net cash used in investing activities	(203)
Net cash generated from financing activities	2,234
Net decrease in cash	(152)

For the year ended 31 December 2017, the Group has no any material non-controlling interests occurred.

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41. EVENT AFTER THE REPORTING PERIOD

Statutory demand

On 3 January 2018, the Company received a statutory demand (the "Statutory Demand") dated 29 December 2017 issued by the legal representative of PC Securities Limited, the placing agent of the bonds issued by the Company with principal amount of HK$152 million which was already due on 27 December 2017 ("1st Bonds") but yet to be settled as the date of this report, in respect of alleged claims for the settlement of the indebtedness under the 1st Bonds, in the sum of approximately HK$157 million which comprised the principal amount and interest thereon. The said statutory demand were issued pursuant to section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance Cap 32 Laws of Hong Kong. If the Company fails to repay the said sums within 21 days, a winding-up order may be made in respect of the Company.

On 3 January 2018, the Company also received a notice from the legal representative of PC Securities Limited, the placing agent of the bonds issued by the Company with principal amount of HK$142.3 million due on 28 January 2019 ("2nd Bonds"), to demand that the 2nd Bonds are immediately due and repayable due to the Company failing to settle the 1st Bonds.

For the details, please refer to the Company's announcement dated 3 January 2018.

Proposed Rights Issue

On 23 January 2018, the Board, through Astrum Capital Management Limited will raise net proceeds of not less than approximately HK$217.20 million and not more than approximately HK$217.44 million before expenses (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date), by way of allotment and issue of not less than 2,555,236,440 Rights Shares and not more than 2,558,136,440 Rights Shares on the basis of two (2) Rights Shares for every one (1) Share held on the Record Date at the Subscription Price of HK$0.085 per Rights Share.

For the details, please refer to the Company's announcement dated 23 January 2018.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

Five Years Financial Summary

RESULTS

	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**409,763**	359,977	716,039	865,613	913,286
Gross profit	**20,679**	95,456	285,492	376,837	427,364
(Loss)/profit before tax	**(405,076)**	(343,013)	111,913	217,643	280,685
(Loss)/profit for the year attributable to the owners of the Company	**(411,090)**	(349,601)	74,087	165,880	211,274

ASSETS AND LIABILITIES

	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,149,806**	1,429,529	2,296,236	1,575,057	1,449,592
Total liabilities	**800,942**	725,564	1,193,249	574,291	495,778

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 2017, 2016, 2015, 2014, and 2013 and the consolidated assets and liabilities of the Group as at 31 December 2017, 31 December 2016, 31 December 2015, 31 December 2014, and 31 December 2013 are set out in the audited financial statements of current year, last year and the prior two years before last year.