Arts Group

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability) Stock Code: 1120

Annual Report 2015

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive directors

NG Hoi Ying, Michael
NG Kim Ying
LEE Wai Chung

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

COMPANY SECRETARY

LEE Wai Chung

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Cadwalader, Wickersham & Taft
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

WEBSITE

www.artsgroup.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

Group Structure

At 31st December, 2015

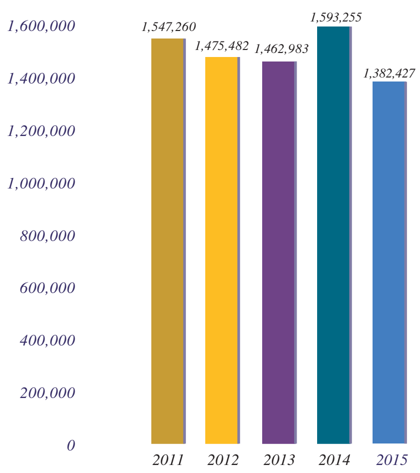
Arts Optical International Holdings Limited

Investment holding

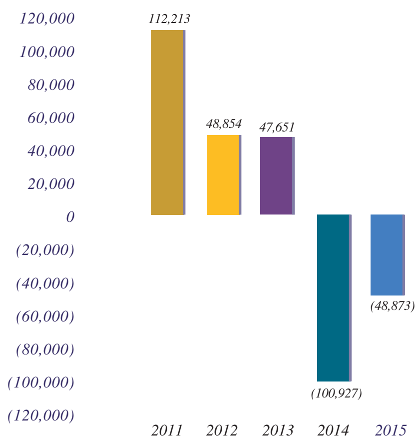
- 100% **Arts Optical Company Limited**
  Trading in prescription frames and sunglasses to original design manufacturing customers
- 100% **Argent Optical Manufactory Limited**
  Manufacture of prescription frames and sunglasses
- 80% **Stepper Eyewear Limited**
  Trading in prescription frames and sunglasses under own and licensed brand names
- 100% **Arts Studio Limited**
  Trading in prescription frames and sunglasses under own and licensed brand names
- 100% **Apex City Industrial Limited**
  Trading in prescription frames and sunglasses under own and licensed brand names

Financial Highlights

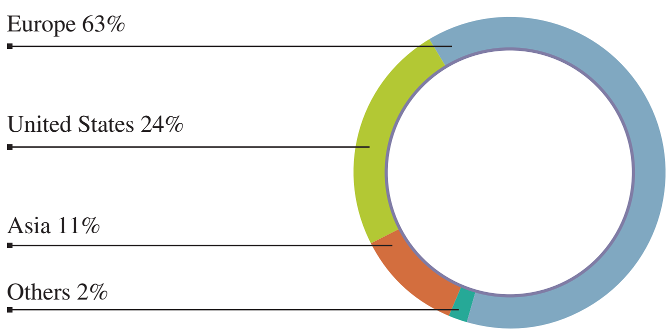
Consolidated revenue *(HK$'000)*



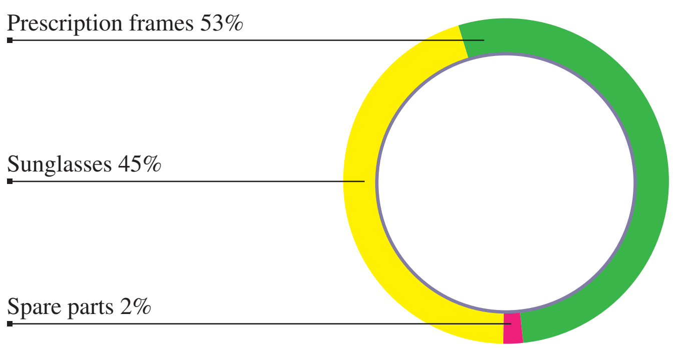
Profit (loss) attributable to owners of the Company *(HK$'000)*



Consolidated revenue by geographical locations in 2015



Revenue of ODM division by product range in 2015



Chairman's Statement

BUSINESS REVIEW

Profitability analysis

As reported in our 2015 Interim Report, the business environment was exceptionally challenging in 2015 amid the macroeconomic development of the Group's major exports markets and the cost pressure experienced in the Group's manufacturing base in Mainland China. The Group's consolidated revenue decreased by 13% to HK$1,382.4 million (2014: HK$1,593.3 million).

The loss reported for the year of 2015 was mainly attributable to:

(i) the negative impact on the profitability of the Group arising from diseconomies of scale as the Group's consolidated revenue decreased by 13% in 2015 as compared with 2014;

(ii) the significant increase in labour costs where the manufacturing facilities of the Group were located, namely Shenzhen City, Heyuan City and Zhongshan City, where the statutory minimum wage increased by 12%, 20% and 15% respectively, since March 2015 for Shenzhen City and since May 2015 for Heyuan City and Zhongshan City;

(iii) the significant increase in other operating costs in Mainland China throughout 2015;

Chairman's Statement

(iv) additional costs and expenses incurred in 2015 as the Group accelerated the pace of its factory relocation project from October 2014 onwards with new buildings being constructed on its factory sites in Pingdi Town of Shenzhen City, Heyuan City and Zhongshan City, which resulted in higher depreciation charges of the buildings and leasehold improvement;

(v) costs and expenses of HK$15.8 million incurred relating to the disposal of land and premises situated at Longguan District, Shenzhen City (the "Argent Land") as announced by the Company on 19th August, 2014 (the "Disposal"); and

(vi) an impairment charge of HK$12.4 million on a loan granted to a corporate customer of the Group due to uncertainty of its collectability.

As the costs and expenses incurred relating to the Disposal decreased substantially from HK$112.5 million in 2014 to HK$15.8 million in 2015, this resulted in a significant reduction of loss attributable to owners of the Company to HK$48.9 million (2014: HK$100.9 million). Loss per share was down to 12.74 HK cents in 2015 (2014: 26.31 HK cents).

Original design manufacturing (ODM) division

Revenue generated by the ODM division contributed to 84% of the consolidated revenue of the Group in 2015 (2014: 89%). Procurement confidence of our ODM customers in the two major markets of the Group, namely Europe and the United States (the "US"), was adversely affected by the depreciation of the Euro against the US dollars and concerns over possible interest rate hikes in the US during the year under review. Sales to ODM customers decreased by 18% from HK$1,417.4 million in 2014 to HK$1,167.0 million in 2015. Sales to Europe and the US was down by 14% and 30% respectively whereas sales to Asia was up by 13%. Sales to Europe, the US, Asia and other regions accounted for 63%, 27%, 9% and 1% respectively of the revenue of the ODM division in 2015 (2014: 61%, 32%, 6% and 1% respectively). The Group continued to maintain a balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 53%, 45% and 2% respectively of the revenue of this division in 2015 (2014: 52%, 46% and 2% respectively).

Chairman's Statement

Distribution and retailing divisions

2015 was the first full year of consolidation of the results of the wholesale businesses in the United Kingdom and France that were acquired by the Group in July 2014. The Group's house brand and licensed brand products were sold to independent distributors in other countries. Revenue generated by the distribution division increased by 23% from HK$173.5 million in 2014 to HK$212.9 million in 2015 and accounted for 15% of the consolidated revenue of the Group in 2015 (2014: 11%). Sales to Europe and North America were up by 45% and 41% respectively whereas sales to Asia was down by 13%. Sales to Europe, Asia, North America and other regions accounted for 63%, 19%, 8% and 10% respectively of the revenue of the distribution division in 2015 (2014: 53%, 27%, 7% and 13% respectively).

The retailing division continued to contribute less than 1% to the consolidated revenue of the Group. Revenue of this division increased from HK$2.4 million in 2014 to HK$2.5 million in 2015.

Financial position and liquidity

Cash flows

The Group's operating activities generated a healthy cash inflow of HK$135.1 million in 2015 (2014: HK$103.4 million) despite a substantial decline in profitability of the core business of the Group. Most of the proceeds of the first instalment of the Disposal received in October 2014 was spent on the factory relocation project. Capital expenditure increased significantly from HK$230.3 million in 2014 to HK$420.9 million in 2015. The net cash position of the Group (being the total of short-term bank deposits as well as bank balances and cash less bank borrowings) therefore decreased from HK$500.4 million as at 31st December, 2014 to HK$149.2 million as at 31st December, 2015.

Working capital management

In line with the decline in revenue by 13% in 2015, inventory balances and total amounts of trade debtors and bills receivable balances decreased by 11% and 19% from HK$216.2 million and HK$405.3 million as at 31st December, 2014 to HK$191.8 million and HK$329.1 million as at 31st December, 2015 respectively. Inventory turnover period (being the ratio of

Chairman's Statement

inventory balances to cost of sales) increased slightly from 60 days in 2014 to 62 days in 2015 due to the increase in proportion of business generated by the distribution business which normally required a higher level of inventory for servicing the customers. The Group continued to exercise strict control on granting of credit and debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) shortened correspondingly from 93 days in 2014 to 87 days in 2015. Because of the substantial capital expenditure incurred by the Group for the relocation of its factory, the current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 1.2 to 1.0 as at 31st December, 2014 to 0.8 to 1.0 as at 31st December, 2015.

Gearing position

The Group maintained a low gearing position throughout 2015. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained at around 1% as at both 31st December, 2015 and 31st December, 2014. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$12.1 million as at 31st December, 2015 (31st December, 2014: HK$10.0 million).

Net asset value

The Group had 383,650,000 shares in issue as at both 31st December, 2015 and 31st December, 2014 with equity attributable to owners of the Company amounting to HK$1,061.9 million and HK$1,200.5 million as at 31st December, 2015 and 31st December, 2014 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 31st December, 2015 was HK$2.77 (31st December, 2014: HK$3.13).

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi and the exchange rate movements between the US dollar and Hong Kong dollar were relatively stable during the year under review.

Chairman's Statement

PROSPECTS

In order to ensure and facilitate a smooth and orderly factory relocation process, Argent Optical Manufactory Limited ("Argent") (being an indirect wholly-owned subsidiary of the Company) and 深圳市横崗佳兆業投資諮詢有限公司 (Shenzhen Henggang Kaisa Investment Consulting Co., Ltd.) ("Kaisa Property") as well as 佳兆業集團(深圳)有限公司 (Kaisa Group (Shenzhen) Co., Ltd.) entered into a supplemental agreement on 13th October, 2015 pursuant to which Argent is required to deliver vacant possession of the Argent Land to Kaisa Property by 15th August, 2016. Construction of all main buildings and internal renovation in the factory sites in Pingdi Town of Shenzhen City, Heyuan City and Zhongshan City has been completed. Relocation of production lines will commence in the second quarter and be completed by mid-2016.

While the management expects that the macroeconomic environment will be challenging globally for our business in 2016, our order book remains solid and is in line with our expectations. The Group maintains an order book of around three months' sales order on hand as our key and strategic customers continue to consolidate their vendor portfolio and concentrate their orders on more reliable suppliers. We are working closely with our customers to streamline their supply chains and add greater value to their businesses.

On the cost side, increase in labour and other operating costs in Mainland China will continue to put pressure on the margins of the Group. The Group remains vigilant in improving cost efficiency and productivity and believes that factory relocation represents a good opportunity to upgrade and modernize its production and operational processes.

Going forward, the management will continue to build on our strong financial position and invest in our core businesses, with particular emphasis on production automation, expansion of brand portfolio and our sales network. Notwithstanding the current challenging environment, we see ample opportunities for continuous growth and will capture such opportunities while adhering to our prudent financial discipline.

DIVIDENDS

The Board does not recommend the payment of a final dividend (2014: nil), but has resolved to recommend a second special dividend of 3.8 HK cents (2014: 3.8 HK cents) per share for the year ended 31st December, 2015. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 25th May, 2016 (the "AGM"), the second special dividend will be payable on or about 15th June, 2016 to shareholders whose names appear on the register of members of the Company on 1st June, 2016.

Chairman's Statement

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the second special dividend, the register of members of the Company will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents for registration	4:30 pm on 19th May, 2016
Closure of register of members	20th May, 2016 to 25th May, 2016 (both dates inclusive)
Record date	25th May, 2016

(ii) For determining entitlement to the second special dividend:

Latest time to lodge transfer documents for registration	4:30 pm on 30th May, 2016
Closure of register of members	31st May, 2016 to 1st June, 2016 (both dates inclusive)
Record date	1st June, 2016

During the above closure periods, no transfer of shares will be effected. To be eligible to attend and vote at the AGM, and to qualify for the second special dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than the aforementioned latest times.

ANNUAL GENERAL MEETING

The notice of AGM will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in mid-April 2016.

APPRECIATION

On behalf of the board of directors, I would like to express my sincere appreciation and thanks to our shareholders, customers, suppliers, bankers and staff for their effort and commitment.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 31st March, 2016

Biographical Details of Directors and Management

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 61, is an executive director of the Company and the founder as well as the chairman of the Group. Mr. Ng is responsible for the corporate policy making and strategic planning of the Group. He has 48 years of experience in the optical products industry. Mr. Ng won the Young Industrialist Award of Hong Kong organised by the Federation of Hong Kong Industries in 1995. He was admitted as an Honorary Fellow of The Professional Validation Council of Hong Kong Industries in 2004. Mr. Ng was the President of the Hong Kong Optical Manufacturers Association Ltd. (the "HKOMA") during 2002 and 2006 and is currently a committee member of the HKOMA, a Director of Hong Kong Commerce and Industry Associations Limited and a Life President of the Hong Kong Wong Tai Sin Industry And Commerce Association Limited. He is the brother of Mr. Ng Kim Ying.

NG Kim Ying, aged 60, is an executive director of the Company. Mr. Ng Kim Ying joined the Group in 1985 and is responsible for the implementation and application of information technology to the business of the Group. He has 31 years of experience in the optical products industry and is the brother of Mr. Ng.

LEE Wai Chung, aged 49, is an executive director and the company secretary of the Company as well as the financial controller of the Group. Mr. Lee joined the Group in 1995 and is responsible for the Group's finance, accounting and company secretarial matters. He obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. Mr. Lee is a practising certified public accountant and certified public accountant in Hong Kong and the United States respectively as well as an overseas non-practising member of the Chinese Institute of Certified Public Accountants. He is also an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a fellow member of the Association of Chartered Certified Accountants. Mr. Lee has 28 years of experience in the accountancy profession.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Chi Wai, aged 49, is an independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wong currently also serves as an independent non-executive director for Bonjour Holdings Limited, Kin Yat Holdings Limited, China Ludao Technology Company Limited and C&D International Investment Group Limited, all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Wong obtained a Bachelor degree in Social Sciences from and was awarded a Post-graduate Certificate in Laws by the University of Hong Kong in 1988 and 1993 respectively. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Wong has also been admitted as a barrister of the High Court of Hong Kong since 1998. He has 28 years of experience in the accountancy profession and is currently the owner of Albert Wong & Co. and AWC (CPA) Limited, both are certified public accountants firms in Hong Kong. Mr. Wong joined the Group in 2004.

Biographical Details of Directors and Management

CHUNG Hil Lan Eric, aged 50, is an independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Chung obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Chung has 28 years of experience in the accountancy profession and is currently the owner of Eric H. L. Chung & Co., a certified public accountants firm in Hong Kong. He joined the Group in 2004.

LAM Yu Lung, aged 51, is an independent non-executive director, the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. He currently also serves as an independent non-executive director for Telecom Digital Holdings Limited which is listed on the Growth Enterprise Market of the Stock Exchange. Mr. Lam obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Lam has 28 years of experience in the accountancy profession and is currently an owner of Tse & Lam Certified Public Accountants, a certified public accountants firm in Hong Kong. He joined the Group in 2011.

SENIOR MANAGEMENT

LI Chi Hung, aged 55, is the general manager of the Group's production plants in Shenzhen, Heyuan and Zhongshan. Mr. Li joined the Group in 1976 and assisted Mr. Ng in the establishment and expansion of the production plants mentioned above. He is also responsible for the overall management and development of these plants and has 40 years of experience in the optical products industry.

HUNG Chao Chia, aged 63, is the deputy general manager of the Group's production plants in Shenzhen, Heyuan and Zhongshan. Mr. Hung joined the Group in 1988 and is responsible for the financial management and administration of the production plants mentioned above. Mr. Hung has 38 years of experience in the optical products industry. He is a member of the Committee of the Chinese People's Political Consultative Conference of Zijin County, Heyuan City of Guangdong Province and the Honorary Life President of Shenzhen Optics & Optoelectronic Manufacturers Association.

WONG Kwok Leung Alan, aged 58, is the product design and development director of the Group. Mr. Wong joined the Group in 1989 and is responsible for product and technology development of the Group. Mr. Wong has 36 years of experience in production management and product development, including 32 years in the optical products industry. He obtained a Master degree in Engineering Management from the University of Technology, Sydney in 2006.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2015.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries, associate and joint venture are the manufacture of and trading in prescription frames and sunglasses as well as property holding, which are set out in notes 38, 20 and 21 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis using financial key performance indicators, can be found in the Chairman's Statement set out on pages 5 to 10 of this Annual Report. This discussion forms part of this Directors' Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 31 of this Annual Report.

The directors had resolved not to declare any interim dividend, but a first special dividend of 3.8 HK cents per share amounting to HK$14,579,000 was paid to the shareholders during the year. The directors do not recommend the payment of a final dividend, but have resolved to recommend the payment of a second special dividend of 3.8 HK cents per share amounting to HK$14,579,000 to the shareholders on the register of members on 1st June, 2016.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 116 of this Annual Report.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2015 were as follows:

	2015	2014
	HK$'000	*HK$'000*
Contributed surplus	**105,369**	105,369
Retained earnings	**20,152**	19,367
	125,521	124,736

Directors' Report

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ng Hoi Ying, Michael
Ng Kim Ying
Lee Wai Chung

Independent non-executive directors:

Wong Chi Wai
Chung Hil Lan Eric
Lam Yu Lung

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Chung Hil Lan Eric and Mr. Ng Kim Ying will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

Each of the independent non-executive directors was appointed for a term of not more than three years and is subject to the retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors independent.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

On 2nd July, 2010, Allied Power Inc. ("Allied Power"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Share Purchase Agreement") with Mr. Ng Hoi Ying, Michael ("Mr. Ng"), a connected person of the Company, pursuant to which Mr. Ng agreed to sell and Allied Power agreed to purchase the entire issued share capital of Art Talent Industrial Limited ("Art Talent") and take an assignment of the benefit of the shareholder loans owed to Mr. Ng by Art Talent and its wholly-owned subsidiary 宏懋金屬製品(深圳)有限公司 (Hongmao Metal Products (Shenzhen) Co. Ltd.) ("Hongmao") respectively, for a total consideration of HK$55 million. Art Talent, through Hongmao, owned or had rights to the four parcels of land with a total site area of approximately 64,852.4 square metres including a piece of land with a site area of approximately 34,493.6 square metres (the "Land A") and four buildings with a total gross floor area of approximately 16,919.0 square metres (the "Buildings") that had been constructed on Land A (collectively, the "Properties"). The Share Purchase Agreement was completed on 5th July, 2010.

Directors' Report

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE (continued)

Under the Share Purchase Agreement, Mr. Ng undertook to use all reasonable endeavours to assist Allied Power, Art Talent, and/or Hongmao to obtain, by not later than 31st December, 2012, necessary certificate(s) and permit(s) from, and complete requisite filing and/or registration procedures with the relevant government authorities in respect of the land use right certificate and the real estate title certificates to the Properties to the extent not already obtained and agreed to indemnify Allied Power in respect of all losses, damages, costs, claims, liabilities, charges and expenses which Allied Power, Art Talent, and/or Hongmao might suffer up to an amount of HK$55 million, in the event that by 31st December, 2012: (i) Hongmao had not obtained the land use right certificate in respect of Land A; and (ii) Hongmao had not obtained real estate title certificates in respect of the Buildings. Mr. Ng further agreed to indemnify Allied Power in respect of any increase in the land premium to be payable if the authorised construction area was exceeded in respect of Land A.

The Company announced on 20th December, 2012 that the land use right certificate and the real estate title certificates had not been obtained and Allied Power entered into a supplemental deed with Mr. Ng on 20th December, 2012 pursuant to which Mr. Ng agreed to extend the duration of the undertaking and indemnity to 31st December, 2015.

The Company further announced on 16th December, 2015 that the abovementioned land use right certificate and the real estate title certificates had not been obtained. In response to an enquiry made by the Group, the Longgang Management Bureau of the Urban Planning, Land and Resources Commission of Shenzhen Municipality had indicated that the final plans of Land A were still under preparation and not yet effective. In order to assist the Group in obtaining the necessary land use right certificate and real estate title certificates, Mr. Ng had agreed to further extend the duration of the undertaking and indemnity described above to 31st December, 2018, and a second supplemental deed dated 16th December, 2015 between Allied Power and Mr. Ng was entered into to this effect.

Mr. Ng was a connected person of the Company by virtue of his being a director and controlling shareholder of the Company. As the giving of the indemnity constituted financial assistance provided by a connected person for the benefit of the Company on normal commercial terms (or better) where no security is granted, this transaction was exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.90 of the Rules Governing the Listing of Securities on the Stock Exchange.

Details of the connected transaction entered into by the Group during the year are set out in note 37 to the consolidated financial statements.

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws of the Company, the directors of the Company and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions and damages which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty. The Company has arranged appropriate directors and officers liability insurance for its directors and officers.

Directors' Report

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

As at 31st December, 2015, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Shares in the Company (Long Positions)

	Number of issued ordinary shares held				
Name of director	**Personal interests**	**Family interests**	**Other interests**	**Total**	**Approximate percentage of issued share capital of the Company**
Ng Hoi Ying, Michael	2,856,000	5,656,000	151,000,000 *(Note a)*	159,512,000	41.58%
Ng Kim Ying	1,150,000	5,000,000	15,500,000 *(Note b)*	21,650,000	5.64%
Lee Wai Chung	2,750,000	–	–	2,750,000	0.72%

Notes:

(a) These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Hoi Ying, Michael.

(b) These shares were directly held by Universal Honour Developments Limited which was wholly-owned by Mr. Ng Kim Ying.

Save as disclosed above, as at 31st December, 2015, none of the directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors of the Company, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st December, 2015, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	169,862,000	*(Note a)*	44.28%
Maritime Overseas Assets Limited	Held by controlled corporation	151,000,000	*(Note a)*	39.36%
Ratagan International Company Limited	Beneficial owner	151,000,000	*(Note a)*	39.36%
FMR LLC	Investment manager	38,365,000	*(Note b)*	10.00%
David Michael Webb	Beneficial owner	6,889,000		1.80%
	Held by controlled corporation	23,877,000	*(Note c)*	6.22%
Preferable Situation Assets Limited	Beneficial owner	23,877,000	*(Note c)*	6.22%

Notes:

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of The Arts 2007 Trust. The Arts 2007 Trust was a discretionary trust and the beneficiaries of which included Mr. Ng Hoi Ying, Michael. Under The Arts 2007 Trust, 151,000,000 shares of the Company were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBCITL.

(b) FMR LLC was deemed to be interested in 38,365,000 shares of the Company through its controlled corporations, Fidelity Management & Research Company which was interested in 33,970,640 shares of the Company, and Fidelity Management Trust Company and Pyramis Global Advisors LLC, which were interested in 4,394,360 shares of the Company.

(c) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. David Michael Webb was deemed to be interested in the 23,877,000 shares of the Company held by PSAL under Part XV of the SFO.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed no other person as having notifiable interests or short positions in the issued share capital of the Company as at 31st December, 2015.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2015, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 50% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 14% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 30% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 13% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers mentioned above.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or similar rights as at 31st December, 2015 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float as at the date of this report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. It puts great emphasis on environmental protection and sustainable development. The Group has actively promoted material-saving and environmentally friendly working environment so as to protect the environment and reduce resources consumption.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the Company is aware of, the Group has complied with all relevant laws and regulations promulgated by the relevant regulatory bodies that have a significant impact on the Group.

Directors' Report

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands that employees are valuable assets and provides a harmonious, safe and professional working environment and competitive remuneration package to its employees. Details of the emolument policy of the Group are disclosed under the heading "Emolument Policy" of this report.

The Group maintains a close partnership relationship with its customers and suppliers to fulfil its immediate and long-term goals. During the year under review, there was no material and significant dispute between the Group and its suppliers and/or customers.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is determined by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the executive directors of the Company were determined by the Remuneration Committee benchmarked against comparable companies in Hong Kong. The emoluments of the independent non-executive directors of the Company were recommended by the board of directors of the Company (the "Board") and approved by the shareholders at the annual general meeting.

Details of the retirement benefit schemes for all qualifying employees of the Group are set out in note 33 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 20 to 28 of this Annual Report.

EVENTS AFTER THE REPORTING PERIOD

As at the date of this Report, the Board is not aware of any important events affecting the Group that have occurred since the end of the year under review.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 31st March, 2016

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices. The Company had complied with all applicable code provisions set out in the CG Code throughout the year ended 31st December, 2015, except for deviation from code provision A.2.1 of the CG Code as disclosed under the paragraph "Chairman and Chief Executive Officer" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31st December, 2015.

BOARD OF DIRECTORS

The Board comprises six Directors, three of whom are executive Directors, namely Mr. Ng Hoi Ying, Michael, Mr. Ng Kim Ying and Mr. Lee Wai Chung, and three are independent non-executive Directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.

During the year ended 31st December, 2015, five Board meetings and one general meeting were held. The attendance of each Director is set out as follows:

Directors	Attendance Record Board meetings	General meeting
Ng Hoi Ying, Michael	5/5	1/1
Ng Kim Ying	5/5	1/1
Lee Wai Chung	5/5	1/1
Wong Chi Wai	5/5	1/1
Chung Hil Lan Eric	5/5	1/1
Lam Yu Lung	5/5	1/1

The Board is responsible for the formulation of the key business and strategic decisions of the Company and its subsidiaries (collectively the "Group") and monitoring the performances of the management team. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's business to the management team.

Mr. Ng Hoi Ying, Michael, the Chairman of the Board and an executive director and Mr. Ng Kim Ying, an executive director, are brothers.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skill. The company secretary of the Company (the "Company Secretary") also updates the Directors on the latest development of the Listing Rules and other applicable regulatory requirements.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

The Directors participated in the following trainings during the year ended 31st December, 2015:

Directors	Types of training
Ng Hoi Ying, Michael	C
Ng Kim Ying	C
Lee Wai Chung	A,C
Wong Chi Wai	A,B,C
Chung Hil Lan Eric	A,C
Lam Yu Lung	A,C

A: attending seminars and/or conferences
B: giving talks at seminars
C: reading newspapers and journals relating to directors' duties and responsibilities as well as update on the Listing Rules and other applicable regulatory requirements

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group and the Company. The Board intends to maintain this structure in the future as it believes that this structure ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and the management of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to Bye-law 87(1) of the Bye-laws of the Company (the "Bye-laws"), at each annual general meeting of the Company, one-third of the Directors for the time being (or 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. Bye-law 87(2) of the Bye-laws further provides that the Director(s) to retire by rotation shall be those who have been longest in office since their last re-election or appointment, and as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. According to Bye-law 86(2), any Director appointed by the Board to fill a casual vacancy shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

Mr. Chung Hil Lan Eric and Mr. Ng Kim Ying who were re-elected as Directors in the annual general meeting of the Company held on 23rd May, 2013 will retire at the forthcoming annual general meeting and will offer themselves for re-election. Their proposed term of office shall not be more than three years and is subject to retirement by rotation in accordance with the Bye-laws.

Corporate Governance Report

APPOINTMENT AND RE-ELECTION OF DIRECTORS (continued)

Mr. Ng Hoi Ying, Michael and Mr. Lam Yu Lung were re-elected as Directors in the annual general meeting of the Company held on 23rd May, 2014 for a term of not more than three years and are subject to retirement by rotation in accordance with the Bye-laws. Mr. Lee Wai Chung and Mr. Wong Chi Wai were re-elected as Directors in the annual general meeting of the Company held on 20th May, 2015 for a term of not more than three years and are subject to retirement by rotation in accordance with the Bye-laws.

BOARD COMMITTEES

To enhance the effectiveness of the management of the Company, the Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee various aspects of the Company's affairs.

AUDIT COMMITTEE

An Audit Committee has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but are not limited to) review of the interim and annual reports of the Group as well as various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company. The Audit Committee has performed the above duties during the year ended 31st December, 2015. Three Audit Committee meetings were held during the year ended 31st December, 2015 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Wong Chi Wai	3/3
Chung Hil Lan Eric	3/3
Lam Yu Lung	3/3

REMUNERATION COMMITTEE

A Remuneration Committee has been established by the Company since 2003 and currently comprises Mr. Chung Hil Lan Eric (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive Directors.

One Remuneration Committee meeting was held during the year ended 31st December, 2015 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Chung Hil Lan Eric	1/1
Wong Chi Wai	1/1
Lam Yu Lung	1/1

Corporate Governance Report

REMUNERATION COMMITTEE (continued)

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

1. to determine the remuneration of the executive Directors and senior management; and

2. to review the remuneration policy of the Group.

During the year ended 31st December, 2015, the Remuneration Committee has, among other things, reviewed and determined the remuneration of the executive Directors and senior management with reference to their performance and the overall remuneration policy of the Group and approved the terms of executive Directors' service contracts. The remuneration of independent non-executive Directors was recommended by the Board and approved by the shareholders of the Company at the annual general meeting.

As at 31st December, 2015, the Group employed approximately 8,300 (31st December, 2014: 10,500) full time staff in Mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

NOMINATION COMMITTEE

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors, making recommendations to the Board on the appointment or re-appointment of Directors and determining the policy, nomination procedures and process and criteria for the nomination of Directors. The Nomination Committee has performed the above duties during the year ended 31st December, 2015.

The Nomination Committee has adopted a board diversity policy in 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Corporate Governance Report

NOMINATION COMMITTEE (continued)

One Nomination Committee meeting was held during the year ended 31st December, 2015 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Lam Yu Lung	1/1
Wong Chi Wai	1/1
Chung Hil Lan Eric	1/1

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

1. to develop and review the Group's policies and practices on corporate governance and make recommendations;

2. to review and monitor the training and continuous professional development of Directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

5. to review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31st December, 2015, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the financial statements, have made judgements and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis.

A statement by the auditor about its reporting responsibilities is included in the Independent Auditor's Report on pages 29 to 30 of this Annual Report.

Corporate Governance Report

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	**Fees paid/payable** *HK$'000*
Audit service	1,830
Non-audit services:	
Review on 2015 interim results	380
Tax compliance services	132
Review on 2015 preliminary annual results	13

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Audit Committee assists the Board in evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems.

The risk management and internal control systems of the Group comprise a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective check and balances.

The annual review of the effectiveness of the risk management and internal control systems of the Group by the Board during the year ended 31st December, 2015 has considered the following:

- the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions as well as review of risk management and internal control systems;

- the changes in the nature and extent of significant risks during the year and the Group's ability to respond to changes in its business and external environment;

- the scope and quality of management's ongoing monitoring of risks and of the internal control systems;

- the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management;

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

- significant control failings or weaknesses, if any, that have been identified during the year and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and
- the effectiveness of the Group's processes in relation to financial reporting and statutory and regulatory compliance.

The processes for assessing internal controls by the Audit Committee include:

- regular interviews with executive Directors in relation to key business operations, internal control and compliance issues, both financial and non-financial;
- review of significant issues arising from internal control review reports and the external audit report;
- private sessions with external consultants and auditors; and
- review of annual assessment and certification of internal controls from executive Directors, management of overseas subsidiaries and department heads in their areas of responsibility.

The Audit Committee has also reviewed papers prepared by executive Directors covering:

- periodic financial reports and accounts;
- preview of annual accounting and financial reporting issues;
- annual internal control review plan;
- whistle-blowing reports;
- report on the Group's internal control systems; and
- reporting of outstanding litigation and compliance issues.

The Board, with the assistance of an external consultant, Royal Assets Advisory Limited and the Audit Committee, assessed the effectiveness of the Group's risk management and internal control systems which covered the process used to identify, evaluate and management significant risks, all material controls, including financial, operational and compliance controls during the year ended 31st December, 2015. No major issue had been raised but certain areas for improvement had been identified and appropriate measures had been taken.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Company currently does not have an internal audit function. The Board had been conducting the review of the effectiveness of the Group's risk management and/or internal control systems with the assistance of external consultants and the Audit Committee since 2006 as the Board believed that this was a cost-efficient and effective approach given the size and operational complexity of the Group. The Board will review the need for an internal audit function on an annual basis as required under the revised CG Code which will come into effect for accounting periods beginning on or after 1st January, 2016.

INSIDE INFORMATION

The Group has in place a Policy on Disclosure of Inside Information ("Policy") which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way so as not to place any person in a privileged dealing position and to allow time for the market to price the listed securities of the Company with the latest available information.

This Policy also provides guidelines to the directors, officers and all relevant employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information.

Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the Company's website and Hong Kong Exchanges and Clearing Limited's HKExnews website, according to the requirements of the Listing Rules.

COMPANY SECRETARY

Mr. Lee Wai Chung was appointed as the Company Secretary since 1996. There was no non-compliance with requirements of professional qualifications and professional training under the Listing Rules during the year ended 31st December, 2015.

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company carrying the right to vote at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to Bye-law 59, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

Corporate Governance Report

SHAREHOLDERS' RIGHTS (continued)

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Making Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with his/her contact details, addressed to the head office of the Company at the following address or facsimile number or via email:

Arts Optical International Holdings Limited
Unit 308, 3/F, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

Facsimile number: (852) 2195 8928
Email: desmond@artsgroup.com
Attention: Company Secretary

All enquiries shall be collected by the Company Secretary who shall report to the executive Directors periodically on the enquiries collected. The executive Directors shall review the enquiries and assign different kinds of enquiries to the appropriate division head/manager for answering. After receiving the answers to all enquiries from the relevant division head/manager, the Company Secretary will collate the answers for the executive Directors' review and approval. The Company Secretary shall then be authorised by the executive Directors to reply to all enquiries in writing.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/ business and its supporting documents.

INVESTOR RELATIONS

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the year ended 31st December, 2015. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Shareholders' Communication Policy

The Company has adopted a Shareholders Communication Policy since 2012 with the objective of ensuring that the Company's shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the shareholders and the investment community to engage actively with the Company.

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 115, which comprise the consolidated statement of financial position as at 31st December, 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

31st March, 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2015

	Notes	2015 HK$'000	2014 HK$'000
Revenue	5	**1,382,427**	1,593,255
Cost of sales		**(1,131,379)**	(1,306,802)
Gross profit		**251,048**	286,453
Other income	6	**28,152**	18,203
Other gains and losses	7	**46,002**	15,653
Expenses relating to the disposal of land and premises	10	**(15,815)**	(112,527)
Distribution and selling expenses		**(36,178)**	(30,868)
Administrative expenses		**(307,653)**	(268,030)
Other expenses		**(824)**	(1,059)
Finance costs	8	**(1,641)**	(1,615)
Share of profit (loss) of an associate		**752**	(636)
Share of profit of a joint venture		**156**	304
Loss before tax		**(36,001)**	(94,122)
Income tax expense	9	**(7,296)**	(4,939)
Loss for the year	10	**(43,297)**	(99,061)
Other comprehensive (expense) income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(63,769)**	(28,107)
Item that will not be reclassified to profit or loss:			
Revaluation increase upon transfer from property, plant and equipment to investment properties		**–**	37,261
		(63,769)	9,154
Total comprehensive expense for the year		**(107,066)**	(89,907)
Loss for the year attributable to:			
Owners of the Company		**(48,873)**	(100,927)
Non-controlling interests		**5,576**	1,866
		(43,297)	(99,061)
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(112,611)**	(91,211)
Non-controlling interests		**5,545**	1,304
		(107,066)	(89,907)
Loss per share	14		
– Basic		**(12.74) HK cents**	(26.31) HK cents

Consolidated Statement of Financial Position

At 31st December, 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current Assets			
Investment properties	15	**140,850**	130,250
Property, plant and equipment	16	**972,937**	751,766
Prepaid lease payments	17	**73,017**	61,224
Deposits paid for acquisition of property, plant and equipment		**14,179**	7,739
Intangible assets	18	**16,732**	19,088
Goodwill	19	**8,979**	9,432
Interest in an associate	20	**20,369**	23,297
Interest in a joint venture	21	**5,024**	5,103
Loan receivable	22	**1,260**	13,071
Other receivables	23	**5,479**	–
Deferred tax assets	30	**229**	934
		1,259,055	1,021,904
Current Assets			
Inventories	24	**191,805**	216,199
Debtors, deposits and prepayments	25	**405,753**	491,199
Loan to a joint venture	21	**–**	225
Loan receivable	22	**–**	562
Other receivables	23	**2,202**	–
Prepaid lease payments	17	**1,743**	1,483
Tax recoverable		**2,852**	3,656
Short-term bank deposits	26	**23,030**	436,625
Bank balances and cash	26	**194,870**	158,036
		822,255	1,307,985
Current Liabilities			
Creditors, deposit received and accrued charges	27	**919,124**	1,013,107
Bank borrowings	28	**68,693**	94,243
Tax liabilities		**2,247**	3,475
		990,064	1,110,825
Net Current (Liabilities) Assets		**(167,809)**	197,160
Total Assets less Current Liabilities		**1,091,246**	1,219,064

Consolidated Statement of Financial Position

At 31st December, 2015

	Notes	2015 HK$'000	2014 HK$'000
Capital and Reserves			
Share capital	29	**38,365**	38,365
Reserves		**1,023,545**	1,162,180
Equity attributable to owners of the Company		**1,061,910**	1,200,545
Non-controlling interests		**17,230**	8,562
Total Equity		**1,079,140**	1,209,107
Non-current Liabilities			
Deferred tax liabilities	30	**12,106**	9,957
		1,091,246	1,219,064

The consolidated financial statements on pages 31 to 115 were approved and authorised for issue by the Board of Directors on 31st March, 2016 and are signed on its behalf by:

Ng Hoi Ying, Michael
DIRECTOR

Ng Kim Ying
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2015

	Attributable to owners of the Company									
	Share capital	**Share premium**	**Special reserve**	**Other reserve**	**Exchange reserve**	**Property revaluation reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000* (*Note a*)	*HK$'000* (*Note b*)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2014	38,365	113,950	(3,269)	3,427	133,964	–	1,029,947	1,316,384	6,800	1,323,184
(Loss) profit for the year	–	–	–	–	–	–	(100,927)	(100,927)	1,866	(99,061)
Exchange differences arising on translation of foreign operations	–	–	–	–	(27,545)	–	–	(27,545)	(562)	(28,107)
Revaluation increase upon transfer from property, plant and equipment to investment properties (*note 16*)	–	–	–	–	–	37,261	–	37,261	–	37,261
Total comprehensive (expense) income for the year	–	–	–	–	(27,545)	37,261	(100,927)	(91,211)	1,304	(89,907)
Dividends paid (*note 13*)	–	–	–	–	–	–	(24,170)	(24,170)	–	(24,170)
Acquisition of addition interest in a subsidiary	–	–	–	(458)	–	–	–	(458)	458	–
At 31st December, 2014	38,365	113,950	(3,269)	2,969	106,419	37,261	904,850	1,200,545	8,562	1,209,107
(Loss) profit for the year	–	–	–	–	–	–	(48,873)	(48,873)	5,576	(43,297)
Exchange differences arising on translation of foreign operations	–	–	–	–	(63,738)	–	–	(63,738)	(31)	(63,769)
Total comprehensive (expense) income for the year	–	–	–	–	(63,738)	–	(48,873)	(112,611)	5,545	(107,066)
Dividends paid (*note 13*)	–	–	–	–	–	–	(29,158)	(29,158)	–	(29,158)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	(1,238)	(1,238)
Disposal of partial interests in subsidiaries without losing control	–	–	–	3,134	–	–	–	3,134	4,361	7,495
At 31st December, 2015	38,365	113,950	(3,269)	6,103	42,681	37,261	826,819	1,061,910	17,230	1,079,140

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2015

Notes:

(a) Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc. pursuant to the group reorganisation in 1996.

(b) Other reserve arose from the acquisition of additional interest in a subsidiary from non-controlling interests and the disposal of partial interests in subsidiaries to non-controlling interests and third parties without losing control.

During the year ended 31st December, 2014, the Group acquired an additional 12% equity interest in a non wholly-owned subsidiary, Eyeconcept Limited (currently known as Arts Studio Limited), from non-controlling interests at a cash consideration of HK$12. The difference of HK$458,398 between the cash consideration paid and the net liabilities attributable to the 12% of equity interest in Eyeconcept Limited acquired amounting to HK$458,386 at the date of acquisition has been recognised directly in other reserve. After acquisition, Eyeconcept Limited became a wholly-owned subsidiary of the Group.

During the year ended 31st December, 2015, the Group disposed of 16% equity interest in a non wholly-owned subsidiary, Stepper France, to four members of the management team at an aggregate consideration of €8,000 (equivalent to approximately HK$75,440). The difference of €10,543 (equivalent to approximately HK$99,418) between the consideration received/receivable and the net liabilities attributable to the 16% equity interest in Stepper France disposed of amounting to €5,662 (equivalent to approximately HK$53,396) and the adjustment of imputed interest of €24,205 (equivalent to approximately HK$228,254) at the date of disposal has been recognised directly in other reserve.

During the year ended 31st December, 2015, the Group disposed of 20% equity interest in a non wholly-owned subsidiary, Stepper (UK) Limited, to four members of the management team at an aggregate consideration of £574,600 (equivalent to approximately HK$6,935,422). The difference of £267,929 (equivalent to approximately HK$3,233,897) between the consideration received/receivable and the net assets attributable to the 20% equity interest in Stepper (UK) Limited disposed of amounting to £248,015 (equivalent to approximately HK$2,993,546) and the adjustment of imputed interest of £58,656 (equivalent to approximately HK$707,979) at the date of disposal has been recognised directly in other reserve.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2015

	Notes	2015 HK$'000	2014 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(36,001)**	(94,122)
Adjustments for:			
Finance costs		**1,641**	1,615
Release of prepaid lease payments		**1,622**	1,407
Depreciation of property, plant and equipment		**125,482**	102,687
Amortisation of intangible assets		**2,039**	972
Write back of inventories		**(3,234)**	(10,751)
Allowance for doubtful debts		**6,799**	4,939
Impairment loss of loan receivable	22	**12,363**	–
Interest income		**(8,467)**	(1,043)
Dividend income from available-for-sale investment		**–**	(550)
Net (gain) loss on disposal of property, plant and equipment		**(415)**	96
Increase in fair values of investment properties		**(10,600)**	(2,390)
Loss on deemed disposal of an available-for-sale investment		**–**	394
Net foreign exchange loss	34	**–**	494
Expenses relating to the disposal of land and premises		**15,815**	112,527
Imputed interest income on other receivables		**(357)**	–
Share of (profit) loss of an associate		**(752)**	636
Share of profit of a joint venture		**(156)**	(304)
Operating cash flows before movements in working capital		**105,779**	116,607
Decrease in inventories		**24,605**	6,810
Decrease in debtors, deposits and prepayments		**76,058**	8,840
Decrease in creditors, deposit received and accrued charges		**(66,467)**	(17,946)
Cash generated from operations		**139,975**	114,311
Income taxes paid		**(4,866)**	(10,877)
NET CASH FROM OPERATING ACTIVITIES		**135,109**	103,434
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(395,284)**	(215,883)
Addition to prepaid lease payments		**(18,280)**	(6,700)
Acquisition of an intangible asset		**–**	(4,856)
Acquisition of a subsidiary	34	**–**	(27,213)
Investment in an associate	20	**–**	(20,997)
Net deposit received relating to the disposal of land and premises		**–**	647,827
Expenses relating to the disposal of land and premises		**(15,815)**	(112,527)
Repayment of loan to a joint venture		**225**	514
Proceeds from disposal of property, plant and equipment		**646**	37
Interest received		**8,467**	1,043
Repayments of loan receivable	22	**–**	559
Dividend received from available-for-sale investment		**–**	550
Dividend received from an associate		**862**	–
Deposits paid for acquisition of property, plant and equipment		**(7,298)**	(7,739)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(426,477)**	254,615

Consolidated Statement of Cash Flows

For the year ended 31st December, 2015

	2015 HK$'000	2014 HK$'000
FINANCING ACTIVITIES		
Proceeds from disposal of partial interests in subsidiaries without losing control	**1,973**	–
Dividends paid to owners of the Company	**(29,158)**	(24,170)
Dividends paid to non-controlling shareholders of a subsidiary	**(1,238)**	–
Interest paid	**(1,641)**	(1,615)
New bank borrowings raised	**60,367**	150,415
Repayments of bank borrowings	**(85,917)**	(98,056)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(55,614)**	26,574
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(346,982)**	384,623
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**594,661**	211,367
Effect of foreign exchange rate changes	**(29,779)**	(1,329)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**217,900**	594,661
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Short-term bank deposits	**23,030**	436,625
Bank balances and cash	**194,870**	158,036
	217,900	594,661

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company is an investment holding company. The principal activities of the Company and its principal subsidiaries (the "Group") are set out in note 38.

The consolidated financial statements are presented in Hong Kong dollars which is different from the functional currency of the Company, which is United States dollars, as directors of the Company (the "Directors") consider that Hong Kong dollars is the most appropriate presentation currency in view of its place of listing.

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK$167,809,000 at 31st December, 2015. In the opinion of the Directors, the Group has a number of sources of finance available to fund its operations. Taking into account of the internally generated funds, the available banking facilities and obtaining further banking facilities by the Group's unpledged assets, the Directors are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to Hong Kong Accounting Standard ("HKAS") 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 - 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 - 2013 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs in issue but not yet effective

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[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to HKAS 1	Disclosure Initiative[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle[1]

[1] Effective for annual periods beginning on or after 1st January, 2016
[2] Effective for annual periods beginning on or after 1st January, 2018
[3] Effective for annual periods beginning on or after a date to be determined

HKFRS 9 Financial Instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments (continued)

Key requirements of HKFRS 9:

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

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

The Directors are in the process of assessing the impact on the application of HKFRS 9. For the moment, it is not practicable to provide a reasonable estimate of that effect of HKFRS 9 until a detailed review has been completed.

Except those mentioned above, the Directors anticipate that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31st December, 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly, the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31st December, 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31st December, 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties 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.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirely, which are described as follows:

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

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

Goodwill

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalty arrangement that is based on sales is recognised by reference to the underlying arrangement.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than buildings under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets other than buildings under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such buildings are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately (see accounting policy in respect of impairment losses on tangible and intangible assets below).

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including debtors, loan receivable, other receivables, loan to a joint venture, short-term bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy in respect of impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade debtors, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including creditors and accrued charges, and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries and interests in an associate and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group’s entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

Key sources of estimation uncertainty

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

Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position at 31st December, 2015 at their fair value, details of which are disclosed in note 15. The fair value of the investment properties was determined by reference to valuations conducted on these properties by an independent firm of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties and corresponding adjustments to the changes in fair value reported in the consolidated statement of profit or loss and other comprehensive income and the carrying amount of these properties included in the consolidated statement of financial position. The carrying amount of Group's investments properties at 31st December, 2015 is HK$140,850,000 (2014: HK$130,250,000).

Estimated impairment of intangible assets

Determining whether intangible assets (i.e. trademark and customer relationships) are impaired requires an estimation of the recoverable amount of these intangible assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2015, the carrying amount of the Group's intangible assets is HK$16,732,000 (2014: HK$19,088,000). Details of the recoverable amount calculation are disclosed in note 18.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2015, the carrying amount of goodwill is HK$8,979,000 (2014: HK$9,432,000). Details of the recoverable amount calculation are disclosed in note 19.

Estimated impairment of debtors

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2015, the carrying amount of trade debtors is HK$328,912,000 net of allowance for doubtful debts of HK$40,532,000 (2014: HK$403,966,000 net of allowance for doubtful debts of HK$34,203,000).

Determination of net realisable value of inventories

The cost of inventories is written down to net realisable value when the cost of inventories is not recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. Also, the cost of inventories may not be recoverable if the estimated costs to be incurred to make the sale have increased. When the net realisable value of an item of inventory is less than the carrying amount, the excess is written off immediately in the consolidated statement of profit or loss and other comprehensive income. As at 31st December, 2015, the carrying amount of inventories is HK$191,805,000 net of allowance for inventories of HK$65,600,000 (2014: HK$216,199,000 net of allowance for inventories of HK$69,328,000).

Income taxes

As at 31st December, 2015, no deferred tax asset has been recognised on the tax losses of HK$146,186,000 (2014: HK$68,154,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

5. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on geographical markets, based on the location of customers. Thus, the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

Segment revenues and results

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

For the year ended 31st December, 2015

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	870,830	334,852	145,797	30,948	1,382,427
Result					
Segment profit (loss)	20,201	(3,165)	(3,037)	2,618	16,617
Unallocated income					61,994
Unallocated corporate expenses					(106,531)
Expenses relating to the disposal of land and premises					(15,815)
Interest income on bank deposits					8,467
Finance costs					(1,641)
Share of profit of an associate					752
Share of profit of a joint venture					156
Loss before tax					(36,001)

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

5. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the year ended 31st December, 2014

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	951,994	467,969	140,084	33,208	1,593,255
Result					
Segment profit	44,060	19,520	6,254	1,920	71,754
Unallocated income					4,693
Unallocated corporate expenses					(57,138)
Expenses relating to the disposal of land and premises					(112,527)
Interest income on bank deposits					1,043
Finance costs					(1,615)
Share of loss of an associate					(636)
Share of profit of a joint venture					304
Loss before tax					(94,122)

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 3. Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, investment income, property rental income, royalty income, increase in fair values of investment properties, finance costs, expenses relating to the disposal of land and premises, share of profit or loss of an associate, share of profit of a joint venture and loss on deemed disposal of an available-for-sale investment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

5. SEGMENT INFORMATION (continued)

Segment assets and liabilities

Total segment assets and liabilities are not disclosed as they are not regularly reviewed by the chief operating decision maker.

Other segment information

2015

Amounts included in the measure to segment profit (loss):

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Adjustments *HK$'000* *(Note)*	Consolidated *HK$'000*
Depreciation of property, plant and equipment	**26,768**	**11,751**	**3,661**	**151**	**83,151**	**125,482**
Allowance for (write back) doubtful debts	**2,705**	**5,268**	**(745)**	**(429)**	**–**	**6,799**
(Write back) allowance for inventories	**(4,407)**	**(1,591)**	**2,835**	**(71)**	**–**	**(3,234)**

2014

Amounts included in the measure to segment profit:

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Adjustments *HK$'000* *(Note)*	Consolidated *HK$'000*
Depreciation of property, plant and equipment	26,473	14,155	2,421	223	59,415	102,687
(Write back) allowance for doubtful debts	(105)	4,362	675	7	–	4,939
Write back of inventories	(7,021)	(3,435)	(19)	(276)	–	(10,751)

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit and not allocated to any reportable segment included net gain/loss on disposal of property, plant and equipment and release of prepaid lease payments, which are set out in notes 7 and 10 respectively.

Note: The reconciling item to adjust expenditure for the Group head office's corporate assets, which are not included in segment information.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

5. SEGMENT INFORMATION (continued)

Geographical information

Information about the Group's revenue is presented based on the location of the external customers and information about the Group's non-current assets other than interest in an associate, interest in a joint venture, loan receivable, other receivables and deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers *Year ended*		**Non-current assets**	
	2015 *HK$'000*	2014 *HK$'000*	**2015** *HK$'000*	2014 *HK$'000*
Hong Kong	**–**	–	**182,161**	174,100
People's Republic of China (excluding Hong Kong) ("PRC")	**–**	–	**1,017,320**	775,058
United States	**334,852**	467,969	**4,680**	4,680
Italy	**622,908**	725,583	**–**	–
Other countries	**424,667**	399,703	**22,533**	25,661
	1,382,427	1,593,255	**1,226,694**	979,499

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2015 *HK$'000*	2014 *HK$'000*
Customer A[1]	**188,927**	203,380
Customer B[1]	**174,167**	195,611
Customer C[2]	**–**	230,653

1 Revenue from the Europe

2 Revenue from the United States

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

6. OTHER INCOME

	2015 HK$'000	2014 HK$'000
Included in other income are:		
Sales of scrap materials	**5,352**	6,478
Compensation from customers	**8,491**	7,022
Interest income on bank deposits	**8,467**	1,043
Gross rental income from investment properties	**3,630**	1,502
Dividend income from available-for-sale investment	**–**	550
Royalty income on intangible assets	**–**	233

7. OTHER GAINS AND LOSSES

	2015 HK$'000	2014 HK$'000
Net foreign exchange gains	**47,350**	13,753
Net gain (loss) on disposal of property, plant and equipment	**415**	(96)
Increase in fair value of investment properties	**10,600**	2,390
Loss on deemed disposal of an available-for-sale investment	**–**	(394)
Impairment loss of loan receivable *(note 22)*	**(12,363)**	–
	46,002	15,653

8. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interests on bank borrowings	**1,641**	1,615

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

9. INCOME TAX EXPENSE

	2015 HK$'000	2014 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**1,250**	4,102
– Overprovision in respect of prior year	**(40)**	(30)
	1,210	4,072
PRC Enterprise Income Tax		
– Current year	**187**	293
– Underprovision in respect of prior year	**4**	29
	191	322
United Kingdom Corporation Tax		
– Current year	**2,621**	1,312
France Corporation Tax		
– Current year	**432**	–
Deferred taxation *(note 30)*		
– Current year	**2,842**	(767)
	7,296	4,939

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2014: 25%).

United Kingdom Corporation Tax is calculated at the applicable rate of 20% (2014: 21%) in accordance with the relevant law and regulations in the United Kingdom.

France Corporation Tax is calculated at the applicable rate of 33.33% in accordance with the relevant law and regulations in France for both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

9. INCOME TAX EXPENSE (continued)

Income tax expense for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015	2014
	HK$'000	*HK$'000*
Loss before tax	**(36,001)**	(94,122)
Tax at Hong Kong Profits Tax rate of 16.5%	**(5,940)**	(15,530)
Tax effect of share of (profit) loss of an associate	**(124)**	105
Tax effect of share of profit of a joint venture	**(26)**	(50)
Tax effect of expenses not deductible for tax purpose	**3,240**	10,502
Tax effect of income not taxable for tax purpose	**(5,928)**	(2,004)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis *(Note)*	**3,979**	5,510
Overprovision in respect of prior year	**(36)**	(1)
Tax effect of tax losses for current year not recognised	**13,540**	4,158
Tax effect of other deductible temporary differences for current year not recognised	**524**	593
Utilisation of tax losses for prior years previously not recognised	**(665)**	(130)
Effect of different tax rates of subsidiaries operating outside Hong Kong	**743**	376
Others	**(2,011)**	1,410
Income tax expense for the year	**7,296**	4,939

Note: In relation to 50:50 apportionment basis, a portion of the Group's profits is deemed neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the Directors, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

10. LOSS FOR THE YEAR

	2015	2014
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Amortisation of intangible assets	**2,039**	972
Auditor's remuneration		
– audit service	**1,830**	1,870
– non-audit services	**525**	1,070
Allowance for doubtful debts, net	**6,799**	4,939
Cost of inventories recognised as an expense (included write back of inventories of HK$3,234,000 (2014: HK$10,751,000)) *(Note a)*	**1,131,379**	1,306,802
Depreciation of the property, plant and equipment	**125,482**	102,687
Expenses relating to the disposal of land and premises *(Note b)*	**15,815**	112,527
Operating lease rentals in respect of rented premises	**3,676**	3,676
Release of prepaid lease payments	**1,622**	1,407
Staff costs:		
Directors' emoluments *(note 11)*	**3,712**	3,687
Other staff		
– Salaries and other allowances	**613,392**	659,222
– Contributions to retirement benefit schemes	**30,925**	26,042
Total staff costs	**648,029**	688,951
and after crediting:		
Gross rental income from investment properties	**3,630**	1,502
Less: direct expenses of investment properties that generated rental income during the year	**(734)**	(553)
	2,896	949

Notes:

a) During the year, a write back of inventories of HK$3,234,000 (2014: HK$10,751,000) has been recognised and included in cost of sales. The write back relates to a provision no longer required on the subsequent sales of certain inventories which indicated that the circumstances that previously caused inventories to be impaired no longer exist.

b) The amount represents legal and professional fees as well as transaction costs incurred in relation to the disposal of the Group's interest in Argent Urban Renewal Project (the "Disposal"), details of which are disclosed in the Company's announcements and circular dated 19th August, 2014, 19th September, 2014 and 13th October, 2015 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the six (2014: six) directors were as follows:

2015

		Other emoluments			
	Fee	**Salaries and other benefits**	**Performance related incentive bonus**	**Contributions to retirement benefits scheme**	**Total**
	HK$'000	***HK$'000***	***HK$'000*** *(Note)*	***HK$'000***	***HK$'000***
Executive directors:					
Mr. Ng Hoi Ying, Michael	**–**	**1,300**	**–**	**60**	**1,360**
Mr. Ng Kim Ying	**–**	**195**	**–**	**10**	**205**
Mr. Lee Wai Chung	**–**	**1,640**	**–**	**75**	**1,715**
	–	**3,135**	**–**	**145**	**3,280**
Independent non-executive directors:					
Mr. Wong Chi Wai	**144**	**–**	**–**	**–**	**144**
Mr. Chung Hil Lan Eric	**144**	**–**	**–**	**–**	**144**
Mr. Lam Yu Lung	**144**	**–**	**–**	**–**	**144**
	432	**–**	**–**	**–**	**432**
Total emoluments	**432**	**3,135**	**–**	**145**	**3,712**

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

11. DIRECTORS' EMOLUMENTS (continued)

2014

		Other emoluments			
	Fee	Salaries and other benefits	Performance related incentive bonus	Contributions to retirement benefits scheme	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
Executive directors:					
Mr. Ng Hoi Ying, Michael	–	1,300	15	60	1,375
Mr. Ng Kim Ying	–	195	–	10	205
Mr. Lee Wai Chung	–	1,581	21	73	1,675
	–	3,076	36	143	3,255
Independent non-executive directors:					
Mr. Wong Chi Wai	144	–	–	–	144
Mr. Chung Hil Lan Eric	144	–	–	–	144
Mr. Lam Yu Lung	144	–	–	–	144
	432	–	–	–	432
Total emoluments	432	3,076	36	143	3,687

Note: The performance related incentive bonus is determined by the Remuneration Committee of the Company with reference to the financial performance of the Group and the performance of the individual executive director for each of the year ended 31st December, 2015 and 31st December, 2014.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

12. FIVE HIGHEST PAID EMPLOYEES

Of the five highest paid individuals in the Group, two (2014: two) are executive directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three (2014: three) highest paid employees were as follows:

	2015	2014
	HK$'000	*HK$'000*
Salaries and other benefits	**4,204**	3,721
Contributions to retirement benefits scheme	**341**	166
Performance related incentive bonus	**373**	40
	4,918	3,927

The number of the highest paid employees who are not the executive directors of the Company whose emoluments fell within the following bands is as follows:

	2015	2014
	No. of employees	*No. of employees*
HK$1,000,001 to HK$1,500,000	**2**	3
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**1**	–
	3	3

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

13. DIVIDENDS

	2015 HK$'000	2014 HK$'000
Dividend recognised as distribution during the year:		
No final dividend paid in respect of 2014 (2014: 2.5 HK cents in respect of 2013) per share	–	9,591
No interim dividend paid in respect of 2015 (2014: 0.7 HK cent in respect of 2014) per share	–	2,686
First special dividend paid of 3.8 HK cents in respect of 2015 (2014: 3.1 HK cents in respect of 2014) per share	14,579	11,893
Second special dividend paid of 3.8 HK cents in respect of 2014 (2014: nil) per share	14,579	–
	29,158	24,170

The Directors do not recommend the payment of a final dividend (2014: nil). A second special dividend of 3.8 HK cents in respect of 2015 (2014: 3.8 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2015 HK$'000	2014 HK$'000
Loss for the purpose of basic loss per share – Loss for the year attributable to owners of the Company	(48,873)	(100,927)
	Number of shares	
Number of shares for the purpose of basic loss per share	383,650,000	383,650,000

No diluted loss per share has been presented as there was no potential ordinary shares in issue during 2015 and 2014.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2014	–
Reclassification from property, plant and equipment	127,860
Increase in fair value recognised in profit or loss	2,390
At 31st December, 2014	130,250
Increase in fair value recognised in profit or loss	10,600
At 31st December, 2015	140,850

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

In estimating the fair value of investment properties, it is the Group's policy to engage third party qualified external valuer to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation technique and inputs to the model.

On 31st December, 2015 and 31st December, 2014, independent valuations were undertaken by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers not connected to the Group which has appropriate professional qualifications and recent experience in the valuation of similar properties in the neighbourhood.

As at 31st December, 2014, the valuations have been arrived at using direct comparison approach with reference to comparable transactions in the open market and on the basis of vacant properties. One of the key inputs used in valuing the investment properties located in Hong Kong was the unit sale rate used. An increase in the unit sale rate used would result in an increase in fair value measurement of the investment properties, and vice versa.

There has been change to the valuation technique during the year. As at 31st December, 2015, owing to the lack of comparable transactions in the open market, income capitalisation approach has been used. The valuations have been arrived by capitalising the market rentals of all lettable units of the properties by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for the similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

15. INVESTMENT PROPERTIES (continued)

The following table gives information about how the fair values of the Group's investment properties as at 31st December, 2015 and 31st December, 2014 are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

2015

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Investment properties in Hong Kong	Level 3	Income capitalisation method The key inputs are		
		(1) Reversion yield	Reversion yield, taking into account of the capitalisation of rental income potential, nature of the property and prevailing market condition, ranging from 3.0% to 3.5%.	A slight increase in the reversion yield used would result in a significant decrease in the fair value measurement of the investment properties, and vice versa.
		(2) Monthly market rent	Monthly market rents, taking into account of time, location and individual factors such as frontage and size, between the comparable and the property, ranging from HK$21.0 to HK$25.4 per square foot per month on lettable area basis for the office portion of the property and HK$2,800 per car parking space per month for the car parking space portion of the property.	A slight increase in the monthly market rent used would result in a significant increase in the fair value measurement of the investment properties, and vice versa.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

15. INVESTMENT PROPERTIES (continued)

2014

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Investment properties in Hong Kong	Level 3	Direct comparison method The key input is		
		(1) Unit sale rate	Unit sale rate, taking into account the time, location, and individual factors, such as frontage and size, between the comparable and the property, ranging from HK$9,600 to HK$9,700 per square foot on gross floor area basis for properties and ranging from HK$1,090,000 to HK$1,100,000 per unit for car park spaces.	An increase in the unit sale rate used would result in an increase in the fair value measurement of the investment properties by the same percentage increase, and vice versa.

The fair values of all investment properties at 31st December, 2015 and 31st December, 2014 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy. There were no transfer into or out of Level 3 during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Buildings under construction HK$'000	Total HK$'000
COST								
At 1st January, 2014	73,902	673,795	186,174	858,960	95,262	12,302	1,469	1,901,864
Exchange realignment	–	(16,357)	(6,332)	(24,274)	(2,706)	(1,015)	(1,018)	(51,702)
Additions	28,747	49,558	48,489	37,261	4,035	1,044	47,108	216,242
Disposals	–	–	–	(7,883)	(611)	(1,852)	–	(10,346)
Acquisition of a subsidiary *(note 34)*	–	–	315	94	2,303	2,094	–	4,806
Reclassification to investment properties *(Note)*	(65,140)	(32,258)	–	–	–	–	–	(97,398)
Reclassification	–	6,468	4,074	–	–	–	(10,542)	–
At 31st December, 2014	37,509	681,206	232,720	864,158	98,283	12,573	37,017	1,963,466
Exchange realignment	–	(39,360)	(28,037)	(48,806)	(4,873)	(780)	(3,969)	(125,825)
Additions	–	19,366	132,180	21,998	2,416	1,617	218,565	396,142
Disposals	–	–	–	(5,831)	(1,934)	(1,653)	–	(9,418)
Reclassification	–	146,929	26,908	–	–	–	(173,837)	–
At 31st December, 2015	37,509	808,141	363,771	831,519	93,892	11,757	77,776	2,224,365
DEPRECIATION AND AMORTISATION								
At 1st January, 2014	6,218	166,205	151,589	739,506	82,441	10,619	–	1,156,578
Exchange realignment	–	(4,564)	(4,671)	(21,467)	(2,384)	(904)	–	(33,990)
Provided for the year	1,522	27,996	23,624	43,272	5,206	1,067	–	102,687
Eliminated on disposals	–	–	–	(7,814)	(572)	(1,827)	–	(10,213)
Acquisition of a subsidiary *(note 34)*	–	–	315	94	1,923	1,105	–	3,437
Eliminated on reclassification to investment properties *(Note)*	(4,005)	(2,794)	–	–	–	–	–	(6,799)
At 31st December, 2014	3,735	186,843	170,857	753,591	86,614	10,060	–	1,211,700
Exchange realignment	–	(10,832)	(16,701)	(43,945)	(4,442)	(647)	–	(76,567)
Provided for the year	1,039	34,060	41,840	42,331	5,027	1,185	–	125,482
Eliminated on disposals	–	–	–	(5,798)	(1,917)	(1,472)	–	(9,187)
At 31st December, 2015	4,774	210,071	195,996	746,179	85,282	9,126	–	1,251,428
CARRYING VALUES								
At 31st December, 2015	32,735	598,070	167,775	85,340	8,610	2,631	77,776	972,937
At 31st December, 2014	33,774	494,363	61,863	110,567	11,669	2,513	37,017	751,766

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Note: During the year ended 31st December, 2014, the Group changed the usage of certain properties from owner occupation to investment properties. Accordingly, the relevant portion of the properties with a net carrying value of HK$90,599,000 was transferred from property, plant and equipment to investment properties at their fair values on the date of transfer of HK$127,860,000 which were determined by the Directors with reference to the valuation carried out by Vigers at the dates of transfer (note 15). The difference between the fair values of these properties and their carrying values at the date of transfer amounting to HK$37,261,000 has been credited to property revaluation reserve.

The above items of property, plant and equipment other than buildings under construction are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the remaining term of the leases
Buildings	Over the estimated useful lives of 25 years or the lease term of the land on which the buildings are located, if shorter
Leasehold improvements	Over the estimated useful lives of 3 to 5 years or the term of the lease, if shorter
Plant and machinery and motor vehicles	Over 5 years
Furniture, fixtures and office equipment	Over 3 to 5 years

At 31st December, 2015, leasehold land with carrying value of HK$32,735,000 (2014: HK$33,774,000) is situated in Hong Kong and held under a finance lease.

The Group is in the process of obtaining the property ownership certificates in respect of certain buildings located in the PRC with carrying value of HK$50,825,000 at 31st December, 2015 (2014: HK$228,245,000).

17. PREPAID LEASE PAYMENTS

	2015	2014
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current asset	**73,017**	61,224
Current asset	**1,743**	1,483
	74,760	62,707

The Group is in the process of obtaining the land use right certificates in respect of certain leasehold land located in the PRC with carrying value of HK$39,392,000 at 31st December, 2015 (2014: HK$23,962,000).

Notes to the Consolidated Financial Statements

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18. INTANGIBLE ASSETS AND IMPAIRMENT TESTING ON INTANGIBLE ASSETS

	Trademark *HK$'000*	Customer relationships *HK$'000*	Total *HK$'000*
COST			
At 1st January, 2014	4,680	–	4,680
From acquisition of a subsidiary *(note 34)*	–	11,097	11,097
Additions	–	4,856	4,856
Exchange realignment	–	(873)	(873)
At 31st December, 2014	4,680	15,080	19,760
Exchange realignment	–	(990)	(990)
At 31st December, 2015	4,680	14,090	18,770
AMORTISATION AND IMPAIRMENT			
At 1st January, 2014	–	–	–
Provided for the year	–	688	688
Exchange realignment	–	(16)	(16)
At 31st December, 2014	–	672	672
Provided for the year	–	1,443	1,443
Exchange realignment	–	(77)	(77)
At 31st December, 2015	–	2,038	2,038
CARRYING VALUES			
At 31st December, 2015	4,680	12,052	16,732
At 31st December, 2014	4,680	14,408	19,088

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

18. INTANGIBLE ASSETS AND IMPAIRMENT TESTING ON INTANGIBLE ASSETS (continued)

The following useful lives are used in the calculation of amortisation:

Trademark	indefinite
Customer relationships	10 years

The trademark purchased from an independent third party in 2006 is considered by the management of the Group as having an indefinite useful life.

The recoverable amount of the trademark has been determined on the basis of value in use calculations. The recoverable amount is based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years with zero growth rate, and at a discount rate of 3% (2014: 2%). The cash flow projections beyond the 5-year period are extrapolated using a zero growth rate. Cash flow projections during the budget period for the trademark are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

During the year ended 31st December, 2014, the cost of acquiring a non wholly-owned subsidiary which owns the customer relationships (see note 34) are allocated to the respective component of assets acquired on the basis of valuation report dated 16th July, 2014 prepared by an independent valuer.

The Group has also purchased customer relationships from an independent third party for a consideration of €515,000 (equivalent to approximately HK$4,856,000) during the year ended 31st December, 2014. The consideration was determined after arm's length negotiations between the parties. The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 10 years.

The trademark and customer relationships were tested for impairment at the end of each reporting period by comparing their carrying amounts with their recoverable amounts. The management of the Group determined that there is no impairment loss for both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

19. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1st January, 2014	–
Addition recognised from business combinations occurring during the year *(note 34)*	10,237
Exchange realignment	(805)
At 31st December, 2014	9,432
Exchange realignment	(453)
At 31st December, 2015	8,979
IMPAIRMENT	
At 1st January, 2014, 31st December, 2014 and 31st December, 2015	–
CARRYING VALUES	
At 31st December, 2015	8,979
At 31st December, 2014	9,432

Goodwill arising from the acquisition of a non wholly-owned subsidiary which is engaged in trading in prescription frames and sunglasses during the year ended 31st December, 2014 (see note 34). The Group identifies the business operated by the non wholly-owned subsidiary as the single cash-generating unit ("CGU") with synergy effect to which the goodwill of HK$10,237,000 is allocated.

The recoverable amount of the CGU has been determined on the basis of value in use calculations. The recoverable amount is based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years with zero growth rate (2014: 3%), and at a discount rate of 14% (2014: 14%). The cash flow projections beyond the 5-year period are extrapolated using a zero growth rate (2014: 3%). Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregated recoverable amount of CGU.

The goodwill was tested for impairment at the end of each reporting period by comparing the carrying amount of the CGU with the recoverable amount of the CGU. The management of the Group determined that there is no impairment loss for both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

20. INTEREST IN AN ASSOCIATE

Details of the Group's interest in an associate are as follows:

	2015	2014
	HK$'000	*HK$'000*
Cost of investment in an associate *(Notes)*		
– Unlisted	**26,461**	26,461
– Amortisation of intangible asset	**(880)**	(284)
– Exchange realignment	**(1,677)**	(839)
	23,904	25,338
Share of post-acquisition profit or loss and other comprehensive expense	**(3,535)**	(2,041)
	20,369	23,297

Notes:

(1) Consideration, at cost

	HK$'000
Analysis of consideration paid:	
Transferred from available-for-sale investment	5,464
Cash consideration	20,997
	26,461
Breakdown of cost of investment:	
Share of 50% interest in net assets	17,116
Intangible asset – customer relationships	7,214
Goodwill	2,131
	26,461

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

20. INTEREST IN AN ASSOCIATE (continued)

Notes: (continued)

(2) Movement of intangible asset – customer relationships

	HK$'000
At 1st January, 2014	–
Addition	7,214
Amortisation recognised in profit or loss	(284)
Exchange realignment	(645)
At 31st December, 2014	6,285
Amortisation recognised in profit or loss	(596)
Exchange realignment	(639)
At 31st December, 2015	5,050

During the year ended 31st December, 2014, the cost of acquiring an associate which owns the customer relationships are allocated to the respective component of assets acquired on the basis of valuation report dated 29th July, 2014 prepared by an independent valuer. The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 10 years.

The customer relationships was tested for impairment at the end of the reporting period by comparing its carrying amount with its recoverable amount. The management of the Group determined that there is no impairment loss for the both years.

(3) Movement of goodwill

	HK$'000
At 1st January, 2014	–
Addition	2,131
Exchange realignment	(194)
At 31st December, 2014	1,937
Exchange realignment	(199)
At 31st December, 2015	1,738

Goodwill arising from the acquisition of an associate which is engaged in manufacture of and trading in prescription frames and sunglasses during the year ended 31st December, 2014. The Group identifies the business operated as the single CGU.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

20. INTEREST IN AN ASSOCIATE (continued)

Notes: (continued)

(3) Movement of goodwill (continued)

The recoverable amount of the CGU has been determined on the basis of value in use calculations. The recoverable amount is based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years with zero growth rate (2014: 3%), and at a discount rate of 15% (2014: 15%). The cash flow projections beyond the 5-year period are extrapolated using a zero growth rate (2014: 3%). Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregated recoverable amount of CGU.

The goodwill was tested for impairment at the end of each reporting period by comparing the carrying amount of the CGU with the recoverable amount of the CGU. The management of the Group determined that there is no impairment loss for both years.

The Group's trade debtor balance and trade creditor balance due from/to the associate are disclosed in notes 25 and 27 respectively.

Details of the associate at the end of the reporting period are as follow:

Name of associate	Form of business structure	Place of incorporation/ registration and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activity
				2015	2014	**2015**	2014	
Trenti Industria Occhiali S.r.l. ("Trenti")	Incorporated	Italy	Ordinary	**50%**	50%	**50%**	50%	Manufacture of and trading in prescription frames and sunglasses

The above interest in an associate is held through a wholly-owned subsidiary of the Company.

The Group holds 50% of the issued share capital of Trenti. However, under the agreement, the other shareholders control the composition of the board of directors of Trenti and have control over Trenti. The Directors consider that the Group does have significant influence over Trenti and it is therefore classified as an associate of the Group.

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For the year ended 31st December, 2015

20. INTEREST IN AN ASSOCIATE (continued)

Summarised financial information in respect of the Group's associate attributable to the Group's interest prepared in accordance with HKFRSs is set out below. The associate is accounted for using the equity method in the consolidated financial statements.

	2015	2014
	HK$'000	*HK$'000*
Current assets	**39,301**	33,808
Non-current assets	**4,728**	4,202
Current liabilities	**(32,213)**	(24,700)
Net assets	**11,816**	13,310

	2015	2014
	HK$'000	*HK$'000*
Income recognised in profit or loss	**73,717**	22,225
Expenses recognised in profit or loss	**72,965**	22,861
Other comprehensive expense – exchange reserve	**(2,246)**	(1,405)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015	2014
	HK$'000	*HK$'000*
Net assets of the associate attributable to the Group's interest	**11,816**	13,310
Goodwill	**1,738**	1,937
Intangible asset	**5,050**	6,285
Other adjustments	**1,765**	1,765
Carrying amount of the Group's interest in the associate	**20,369**	23,297

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For the year ended 31st December, 2015

21. INTEREST IN A JOINT VENTURE

	2015 HK$'000	2014 HK$'000
Cost of unlisted investment in a joint venture *(Note)*	**1,017**	1,017
Share of post-acquisition profit and other comprehensive expense	**470**	549
	1,487	1,566
Loan to a joint venture	**3,537**	3,537
	5,024	5,103

Note: During the year ended 31st December, 2012, the Group acquired 25% interest in a joint venture at a cash consideration of approximately HK$1,017,000. Goodwill of HK$708,000 is included in the cost of investment in a joint venture.

The loan to the joint venture of HK$3,537,000 (2014: HK$3,537,000) included in the Group's non-current assets is unsecured, carries interest at 0.01% per annum and not repayable within one year from the end of the reporting period. In the opinion of the Directors, the loan is considered as a quasi-equity investment in the joint venture.

As at 31st December, 2014, the loan to the joint venture of HK$225,000 included in the Group's current assets was unsecured and carried interest at 9% per annum. The amount was fully repaid during the year ended 31st December, 2015.

The Group's trade receivable balance due from the joint venture is disclosed in note 25.

Details of the joint venture at the end of the reporting period are as follow:

Name of joint venture	Form of business structure	Place of incorporation/ registration and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activity
				2015	2014	**2015**	2014	
廣州佳視美光學眼鏡有限公司 (known as "Guangzhou Jiashimei Optical Company Limited")	Incorporated	PRC	Ordinary	**25%**	25%	**25%**	25%	Trading in prescription frames and sunglasses

The above investment in a joint venture is held through a wholly-owned subsidiary of the Company.

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21. INTEREST IN A JOINT VENTURE (continued)

In terms of a contractual agreement drawn up and signed between all five shareholders of Guangzhou Jiashimei Optical Company Limited, all decisions on financial policies must be agreed by unanimous consent between all five shareholders of the entity. Accordingly, there is a contractual sharing of control over Guangzhou Jiashimei Optical Company Limited and the investment in that entity is accounted for by the Group as an interest in a joint venture.

Summarised financial information in respect of the Group's joint venture attributable to the Group's interest prepared in accordance with HKFRSs is set out below. The joint venture is accounted for using the equity method in the consolidated financial statements.

	2015 *HK$'000*	2014 *HK$'000*
Current assets	**5,437**	5,604
Non-current assets	**22**	28
Current liabilities	**(1,143)**	(1,237)
Non-current liabilities	**(3,537)**	(3,537)
Net assets	**779**	858

	2015 *HK$'000*	2014 *HK$'000*
Income recognised in profit or loss	**2,847**	3,382
Expenses recognised in profit or loss	**2,691**	3,078
Other comprehensive expense – exchange reserve	**(235)**	(26)

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21. INTEREST IN A JOINT VENTURE (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2015 **HK$'000**	2014 HK$'000
Net assets of the joint venture attributable to the Group's interest	**779**	858
Goodwill	**708**	708
	1,487	1,566
Loan	**3,537**	3,537
Carrying amount of the Group's interest in the joint venture	**5,024**	5,103

22. LOAN RECEIVABLE

	2015 **HK$'000**	2014 HK$'000
Carrying amount analysed for reporting purposes:		
Non-current assets (receivable after 12 months from the end of the reporting period)	**1,260**	13,071
Current assets (receivable within 12 months from the end of the reporting period)	**–**	562
	1,260	13,633

Movement in the carrying amount of loan receivable:

	2015 **HK$'000**	2014 HK$'000
At 1st January	**13,633**	14,192
Repayments	**–**	(559)
Impairment loss recognised in profit or loss	**(12,363)**	–
Exchange realignment	**(10)**	–
At 31st December	**1,260**	13,633

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For the year ended 31st December, 2015

22. LOAN RECEIVABLE (continued)

The loan receivable is granted to an independent corporate customer and is denominated in United States dollars. The amount carries fixed interest rate at 5% per annum and is repayable through 24 quarterly instalments of US$72,500 (equivalent to approximately HK$562,000) commencing in October 2016 with a balance payment of US$17,500 (equivalent to approximately HK$136,000) in October 2022 (2014: 24 quarterly instalments of US$72,500 (equivalent to approximately HK$562,000) commencing in October 2015 with a balance payment of US$17,500 (equivalent to approximately HK$136,000) in October 2021). The amount is secured by all assets held by the corporate customer. The Group is not permitted to sell or repledge the collateral in the absence of default by the borrower.

The Directors assess the collectability on the carrying value of the loan receivable at the end of each reporting period. Based on the assessment, the recoverable amount of the loan receivable is estimated to be less than its carrying amount with reference to the repayments history and the net realisable value of all assets of this corporate customer. Accordingly, the management of the Group determined that an impairment loss of US$1,595,000 (equivalent to approximately HK$12,363,000) (2014: nil) is recognised in profit or loss for the year ended 31st December, 2015.

23. OTHER RECEIVABLES

	2015 ***HK$'000***	2014 *HK$'000*
Carrying amount analysed for reporting purposes:		
Non-current assets (receivable after 12 months from the end of the reporting period)	**5,479**	–
Current assets (receivable within 12 months from the end of the reporting period)	**2,202**	–
	7,681	–

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23. OTHER RECEIVABLES (continued)

Movement in the carrying amount of other receivables:

	2015	2014
	HK$'000	*HK$'000*
At 1st January	**–**	–
Other receivables recognised from the disposal of partial interests in subsidiaries	**11,026**	–
Fair value adjustment at initial recognition	**(1,170)**	–
Imputed interest income recognised in profit or loss	**357**	–
Repayments	**(1,973)**	–
Exchange realignment	**(559)**	–
At 31st December	**7,681**	–

On 1st January, 2015, Stepper Eyewear Limited ("Stepper HK"), a non wholly-owned subsidiary of the Company, entered into four sale and purchase agreements with four members of the management team ("Stepper UK Team") of Stepper (UK) Limited ("Stepper UK"), a non wholly-owned subsidiary of the Company, pursuant to which Stepper HK would sell and the Stepper UK Team would purchase a total of 25% of the issued share capital of Stepper UK for an aggregate consideration of £718,250 (equivalent to approximately HK$8,669,000) (the "Stepper UK Price"). The Stepper UK Price was determined by the parties at arm's length negotiations with reference to the price paid by the Group for the acquisition of Stepper UK in July 2014 and the post-acquisition profits earned by Stepper UK. The purpose of the sale of the 25% interest in Stepper UK was to motivate the Stepper UK Team towards higher level of performance of Stepper UK.

On 1st January, 2015, Stepper HK also entered into four sale and purchase agreements with four members of the management team ("Stepper France Team") of Stepper France, a non wholly-owned subsidiary of the Company, pursuant to which (i) Stepper HK would sell and the Stepper France Team would purchase a total of 20% of the issued share capital of Stepper France for an aggregate consideration of €10,000 (equivalent to approximately HK$94,000) (the "Stepper France Share Price") and (ii) Stepper HK would assign its interest in its loan to Stepper France with a face value of €240,000 (equivalent to approximately HK$2,263,000) to the Stepper France Team for an aggregate consideration of €240,000 (equivalent to approximately HK$2,263,000) (the "Stepper France Loan Price"). The Stepper France Share Price and the Stepper France Loan Price were determined by the parties at arm's length negotiations with reference to the nominal value of the share capital of Stepper France transferred and face value of the shareholder's loan assigned respectively. The purpose of the sale of the 20% interest in Stepper France and assignment of shareholder's loan was to motivate the Stepper France Team towards higher level of performance of Stepper France.

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For the year ended 31st December, 2015

23. OTHER RECEIVABLES (continued)

The other receivables are the consideration receivables from the Stepper UK Team and the Stepper France Team. The considerations are repayable by instalments and will be fully repaid in December 2019. Repayments have been made in accordance with the sale and purchase agreements. The Group does not hold any collateral over these balances.

At the end of reporting period, the interest-free other receivables are carried at amortised cost, which represents the difference between the carrying amount and the present value of the estimated future cash flows discounted at an effective interest rate of 3.70% and 4.46% for Stepper UK Price and Stepper France Loan Price, respectively.

The Group's other receivables that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2015 ***HK$'000***	2014 *HK$'000*
Euro	**1,598**	–
British Pound Sterling	**6,083**	–

24. INVENTORIES

	2015 ***HK$'000***	2014 *HK$'000*
Raw materials	**42,196**	57,607
Work in progress	**124,644**	131,173
Finished goods	**24,965**	27,419
	191,805	216,199

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25. DEBTORS, DEPOSITS AND PREPAYMENTS

	2015 HK$'000	2014 HK$'000
Trade debtors	369,444	438,169
Less: Allowance for doubtful debts	(40,532)	(34,203)
	328,912	403,966
Bills receivable	185	1,318
Withholding tax paid relating to the Disposal	68,098	71,981
Other debtors, deposits and prepayments	8,558	13,934
Total debtors, deposits and prepayments	405,753	491,199

The Group's trade and other debtors that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2015 HK$'000	2014 HK$'000
Hong Kong dollars	169	317
Renminbi	4,293	3,492
Euro	157	820
United States dollars	25,546	25,961
Japanese Yen	–	171

The following is an aged analysis of trade debtors net of allowance for doubtful debts based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2015 HK$'000	2014 HK$'000
0 – 90 days	248,627	321,114
91 – 180 days	75,133	80,012
More than 180 days	5,152	2,840
	328,912	403,966

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For the year ended 31st December, 2015

25. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

The following is an aged analysis of bills receivable based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2015	2014
	HK$'000	*HK$'000*
0 – 90 days	**185**	1,191
91 – 180 days	**–**	127
	185	1,318

The Group has a policy of allowing a credit period of 30 days to 120 days to its trade debtors. No interest is charged on the trade debtors. The Group has provided fully for all receivables past due beyond 360 days because historical experience is such that receivables that are past due beyond 360 days are generally not recoverable. Trade debtors past due between 60 days and 360 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and subsequent settlement.

Before accepting any new customer, the Group carries out research on the creditability of new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed at least once a year. Trade debtors that are neither past due nor impaired have good track records with the Group.

Included in the Group's trade debtor balance are debtors with aggregate carrying amount of HK$70,290,000 (2014: HK$78,462,000) which are past due at the reporting date for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

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25. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Aging of trade debtors which are past due but not impaired

	2015 *HK$'000*	2014 *HK$'000*
Overdue:		
1 – 90 days	**70,290**	78,462

Aging of bills receivable which are past due but not impaired

	2015 *HK$'000*	2014 *HK$'000*
Overdue:		
1 – 90 days	**185**	360

Movement in the allowance for doubtful debts

	2015 *HK$'000*	2014 *HK$'000*
At 1st January	**34,203**	29,283
Impairment losses recognised on receivables	**6,799**	4,939
Amounts written off as uncollectible	**(332)**	(72)
Acquisition of a subsidiary	**–**	75
Exchange realignment	**(138)**	(22)
At 31st December	**40,532**	34,203

In determining the recoverability of a trade debtor, the Group considers any change in the credit quality of the trade debtor from the date credit was initially granted up to the end of each reporting period. The Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of HK$40,532,000 (2014: HK$34,203,000) which are in severe financial difficulties and therefore the Directors considered that they are irrecoverable.

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25. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Trade receivable due from the associate and joint venture

Included in the Group's trade receivable is an amount due from the Group's associate of HK$10,286,000 (2014: HK$5,747,000) and an amount due from the Group's joint venture of HK$241,000 (2014: HK$404,000), which are repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. The amounts outstanding are unsecured and not past due at the end of the reporting period. No expense has been recognised in the period for doubtful debts in respect of the amounts outstanding from the associate and joint venture.

26. SHORT-TERM BANK DEPOSITS AND BANK BALANCES AND CASH

At 31st December, 2015, short-term bank deposits represents deposits held by the Group with an original maturity of three months or less.

Bank balances carry market interest rates which range from 0.001% to 0.30% (2014: 0.001% to 0.35%) per annum and short-term bank deposits carry at market rate of 1.35% in 2015 (2014: 3.08% to 4.35%) per annum.

The Group's short-term bank deposits and bank balances and cash that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2015	2014
	HK$'000	*HK$'000*
Hong Kong dollars	**30,165**	13,926
Renminbi	**239**	285
Euro	**1,132**	326
United States dollars	**2,144**	1,664
Japanese Yen	**2,148**	1,008
British Pound Sterling	**24**	–

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27. CREDITORS, DEPOSIT RECEIVED AND ACCRUED CHARGES

	2015 HK$'000	2014 HK$'000
Trade creditors	110,920	138,627
Deposit received relating to the Disposal *(Note)*	680,976	719,808
Other creditors and accrued charges	127,228	154,672
	919,124	1,013,107

Note: The amount represents the first instalment of proceeds relating to the Disposal (see note 10) of RMB577,000,000 received in October 2014.

The Group's trade and other creditors that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2015 HK$'000	2014 HK$'000
Hong Kong dollars	56,631	72,259
Renminbi	12,797	17,100
Euro	5,027	7,032
United States dollars	4,234	792
Japanese Yen	1,860	2,328

The following is an aged analysis of trade creditors based on the invoice date at the end of the reporting period:

	2015 HK$'000	2014 HK$'000
0 – 60 days	89,044	110,826
61 – 120 days	19,209	24,068
More than 120 days	2,667	3,733
	110,920	138,627

The credit period on purchase of goods is 60 days to 120 days. No interest is charged by the trade creditors. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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27. CREDITORS, DEPOSIT RECEIVED AND ACCRUED CHARGES (continued)

Trade payable due to the associate

Included in the Group's trade payable is an amount due to the Group's associate of HK$2,008,000 (2014: HK$787,000), which is repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature. The amount outstanding is unsecured and not past due at the end of the reporting period.

28. BANK BORROWINGS

	2015	2014
	HK$'000	*HK$'000*
Bank borrowings:		
– Secured	**45,959**	50,833
– Unsecured	**22,734**	43,410
	68,693	94,243
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	**27,732**	48,284
– more than one year, but not exceeding two years	**5,124**	4,997
– more than two years, but not exceeding five years	**16,161**	15,762
– more than five years	**19,676**	25,200
	68,693	94,243
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	**(68,693)**	(94,243)
Amounts due after one year shown under non-current liabilities	**–**	–

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK$34,646,000 (2014: HK$38,313,000) is secured by the Group's investment properties, leasehold land and buildings with carrying amount of HK$142,219,000 (2014: HK$131,670,000) and carries interest at Hong Kong Prime Rate less 2.6%. A bank borrowing of HK$11,313,000 (2014: HK$12,520,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$33,875,000 (2014: HK$35,020,000) and carries interest at one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 1.8%. Unsecured bank borrowings of HK$22,734,000 (2014: HK$43,410,000) carry interests at HIBOR plus certain basis points.

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28. BANK BORROWINGS (continued)

The effective interest rates per annum at the end of the reporting period on the bank borrowings of the Group were as follows:

	2015	2014
Variable-rate borrowings	**2.38%**	2.27%

The Group's bank borrowings that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2015 ***HK$'000***	2014 *HK$'000*
Hong Kong dollars	**22,734**	–

29. SHARE CAPITAL

The share capital of the Company was as follows:

	Number of shares **31.12.2015** **&** **31.12.2014**	**Nominal value** **31.12.2015** **&** **31.12.2014** ***HK$'000***
Ordinary shares of HK$0.1 each:		
Authorised:		
At beginning and end of year	**1,000,000,000**	**100,000**
Issued and fully paid:		
At beginning and end of year	**383,650,000**	**38,365**

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30. DEFERRED TAX (LIABILITIES) ASSETS

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation *HK$'000*	**Other temporary difference** *HK$'000* *(Note)*	**Total** *HK$'000*
At 1st January, 2014	(4,750)	(5,221)	(9,971)
(Charge) credit to profit or loss	(260)	1,027	767
Acquisition of a subsidiary *(note 34)*	197	–	197
Exchange realignment	(16)	–	(16)
	(79)	1,027	948
At 31st December, 2014	(4,829)	(4,194)	(9,023)
Charge to profit or loss	(1,993)	(849)	(2,842)
Exchange realignment	(12)	–	(12)
	(2,005)	(849)	(2,854)
At 31st December, 2015	(6,834)	(5,043)	(11,877)

Note: The amount represents the net temporary differences arising from capitalisation of production cost of inventories at Group level and unrealised profits on the inventories arising from intra-group sales.

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30. DEFERRED TAX (LIABILITIES) ASSETS (continued)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2015	2014
	HK$'000	*HK$'000*
Deferred tax assets	**229**	934
Deferred tax liabilities	**(12,106)**	(9,957)
	(11,877)	(9,023)

At 31st December, 2015, the Group has unused tax losses of HK$146,186,000 (2014: HK$68,154,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$54,602,000 (2014: HK$44,686,000) that will expire from 2016 to 2020 (2014: expire from 2015 to 2019). Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK$41,916,000 (2014: HK$38,740,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits, as disclosed in the consolidated statement of changes in equity.

The Directors review the capital structure periodically. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if necessary.

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32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015 **HK$'000**	2014 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**560,689**	1,021,850
Financial liabilities		
Amortised cost	**286,791**	360,130

(b) Financial risk management objectives and policies

The Group's major financial instruments include debtors, loan receivable, other receivables, loans to a joint venture, short-term bank deposits, bank balances and cash, creditors and accrued charges, and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group does not enter into or trade derivative financial instruments either for hedging or speculative purposes.

Market risk

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

(i) Currency risk

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group also has other receivables, trade and other debtors, short-term bank deposits, bank balances and cash, trade and other creditors as well as bank borrowings denominated in foreign currency balances. Details of foreign currency balances are detailed in notes 23, 25, 26, 27 and 28.

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32. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**30,334**	14,243	**79,365**	72,259
Renminbi	**4,532**	3,777	**12,797**	17,100
Euro	**2,887**	1,146	**5,027**	7,032
United States dollars	**27,690**	27,625	**4,234**	792
Japanese Yen	**2,148**	1,179	**1,860**	2,328
British Pound Sterling	**6,107**	–	**–**	–

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in currency of Renminbi, Euro, Japanese Yen and British Pound Sterling. The Hong Kong dollars ("HKD") and United States dollars ("USD") denominated monetary items arose from group entities with functional currency of USD and HKD respectively. As HKD is pegged to USD, the Directors consider that the foreign currency exposure is limited.

The following table details the Group's sensitivity to a 5% (2014: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% (2014: 5%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items (other than those denominated in HKD and USD) and adjusts their translation at the period end for a 5% (2014: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax loss where the functional currencies of the relevant group entities strengthen against the relevant foreign currencies. For a 5% (2014: 5%) weakening of the functional currencies of the relevant group entities, there would be an equal and opposite impact on the post-tax loss, and the balances below would be negative.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

32. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

	Decrease (increase) in loss for the year (post-tax)	
	2015	2014
	HK$'000	*HK$'000*
Renminbi	**492**	701
Euro	**127**	310
Japanese Yen	**(17)**	60
British Pound Sterling	**(363)**	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate loans to a joint venture (see note 21 for details of these loans) and fixed rate loan receivable (see note 22 for details of this loan receivable).

The Group's cash flow interest rate risk relates primarily to variable-rate short-term bank deposits, bank balances and borrowings (see note 28 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate and HIBOR arising from the Group's borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

32. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

Sensitivity analysis on bank balances is not presented as the management considers that the Group's exposure to interest rate fluctuation is insignificant.

The sensitivity analysis below has been determined based on the exposure to interest rates for short-term bank deposits placed and borrowings outstanding at the end of the reporting period. The analysis is prepared assuming the short-term bank deposits placed and borrowings outstanding at the end of the reporting period were placed and outstanding for the whole year. A 50 basis point (2014: 50 basis point) represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2014: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31st December, 2015 would increase/decrease by HK$228,000 (2014: decrease/increase by HK$1,701,000). This is mainly attributable to the Group's exposure to interest rates on its short-term bank deposits placed and borrowings outstanding.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk inherent in the financial assets and financial liabilities as the year end exposure does not reflect the exposure during the year.

Credit risk

As at 31st December, 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts, taking into account any change in the credit quality of the trade debtors from the date credit was initially granted up to the reporting date. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

32. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

The credit risk for bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on the loan receivable, other receivables and liquid funds which are deposited with several banks with high credit ratings, the Group has concentration of credit risks with exposure limited to certain customers. At the end of reporting period, five customers of the Group accounted for about 59% (2014: 52%) of the Group's trade debtors. These five customers are leading global players of the eyewear industry and distribute eyewear products under their portfolio of fashion brands through their global distribution and/or retailing networks. The Group considers that the concentration of risk is low as these five customers have good reputation and payment records. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk.

Liquidity risk

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

As at 31st December, 2015, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$4,600,000 (2014: HK$4,600,000) and HK$111,246,000 (2014: HK$90,570,000) respectively. The facilities expiring within one year are annual facilities subject to review at various dates during 2016.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amounts is derived from interest rate curve at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

32. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average effective interest rate	**On demand or less than 3 months**	**3 months to 1 year**	**Total undiscounted cash flows**	**Carrying amount at 31.12.2015**
	%	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
2015					
Non-derivative financial liabilities					
Creditors and accrued charges	**–**	**213,124**	**4,974**	**218,098**	**218,098**
Bank borrowings – variable rate	**2.38**	**68,693**	**–**	**68,693**	**68,693**
		281,817	**4,974**	**286,791**	**286,791**

	Weighted average effective interest rate	On demand or less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2014
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2014					
Non-derivative financial liabilities					
Creditors and accrued charges	–	243,321	22,566	265,887	265,887
Bank borrowings – variable rate	2.27	94,243	–	94,243	94,243
		337,564	22,566	360,130	360,130

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

32. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 3 months" time band in the above maturity analysis. As at 31st December, 2015 and 31st December, 2014, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$68,693,000 and HK$94,243,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that these outstanding bank borrowings at 31st December, 2015 will be fully repaid by June 2024 in accordance with the scheduled repayment dates set out in the loan agreements. On that basis, the aggregate principal and interest cash outflows will amount to HK$73,833,000 (2014: HK$100,540,000) for financial liabilities of the Group as at 31st December, 2015.

	Maturity Analysis – Term loans subject to repayment on demand clause based on scheduled repayment terms					
	0 – 3 months *HK$'000*	4 – 12 months *HK$'000*	> 1 – < 2 year *HK$'000*	> 2 – < 5 years *HK$'000*	> 5 years *HK$'000*	Total undiscounted cash outflows *HK$'000*
31st December, 2015	16,429	12,520	6,088	18,263	20,533	73,833
31st December, 2014	44,991	4,567	6,089	18,266	26,627	100,540

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

33. RETIREMENT BENEFIT SCHEMES

The Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

In addition to the MPF Scheme, the Group voluntarily set up a retirement benefit scheme in Hong Kong for selected employees in the PRC since 2007. During the year ended 31st December, 2015, the cost charged to profit or loss of HK$3,300,000 (2014: HK$2,908,000) represents contributions payable to this scheme by the Group in respect of services provided by the selected PRC employees in 2015. This retirement benefit scheme is registered with the Mandatory Provident Fund Schemes Authority under the Occupational Retirement Schemes Ordinance. The assets of the retirement benefit scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the retirement benefit scheme, only the employer is required to make contributions to the scheme at the amounts specified in the rules. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

As stipulated under the rules and regulations in the PRC, the subsidiaries established in the PRC are required to contribute certain percentage of payroll costs of its employees to a state-managed retirement scheme operated by the provincial governments for its employees in the PRC. After the contribution, the Group has no further obligation for actual payment of the retirement benefits.

The retirement benefit scheme contributions arising from the above retirement schemes charged to profit or loss represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of HK$31,070,000 (2014: HK$26,185,000) represents contributions paid and payable to these schemes by the Group. At the end of reporting period, there was no forfeited contribution available to reduce future contributions in both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

34. ACQUISITION OF A SUBSIDIARY

On 16th July, 2014, Stepper HK entered into a share purchase agreement with an independent third party, Rayner & Keeler Limited (“Vendor”), pursuant to which the Vendor agreed to sell and Stepper HK agreed to purchase the entire issued share capital of Stepper UK, for the consideration of £2,517,230 (equivalent to approximately HK$33,466,000). On the same date, the parties also entered into a debt assignment deed, pursuant to which the Vendor irrevocably assigned to Stepper HK the benefit of the the intercompany balance of £214,490 (equivalent to approximately HK$2,852,000) due from Stepper UK to the Vendor for the consideration of £214,490 (equivalent to approximately HK$2,852,000). The aggregate consideration for the acquisition and the assignment of the debt is £2,731,720 (equivalent to approximately HK$36,318,000). The consideration was determined after arm’s length negotiations between Stepper HK and the Vendor and the transactions were completed on 16th July, 2014. Stepper UK became a non wholly-owned subsidiary of the Company. The transaction has been accounted for as business combination using the acquisition method.

Stepper UK has been the distributor for prescription frames under the Group’s owned brand “STEPPER” in the United Kingdom since 2000. The acquisition provided a good opportunity for the Group to further expand its global distributor network of its owned brands products.

Consideration paid

	HK$’000
Cash consideration in 2014	33,466

Assets acquired and liabilities recognised at the date of acquisition

	HK$’000
Current assets	
Inventories	7,630
Debtors, deposits and prepayments	10,415
Bank balances and cash	6,253
Non-current assets	
Plant and equipment	1,369
Intangible asset	11,097
Deferred tax asset	197
Current liabilities	
Creditors and accrued charges	(12,495)
Tax liability	(1,731)
Fair value of net identifiable assets	22,735

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

34. ACQUISITION OF A SUBSIDIARY (continued)

Goodwill arising on acquisition

	HK$'000
Consideration transferred	33,466
Less: Fair value of identifiable net assets acquired	(22,735)
Less: Exchange adjustments	(494)
Goodwill arising on acquisition	10,237

Net cash outflow on acquisition of a subsidiary

	HK$'000
Cash consideration	33,466
Less: Bank balances and cash acquired	(6,253)
	27,213

Impact of acquisition on the results of the Group

Included in the loss for the year of 2014 was a profit of HK$3,542,000 attributable to the additional business generated by Stepper UK. Revenue for the year of 2014 included HK$23,080,000 in respect of Stepper UK.

Had the business combination been effected at 1st January, 2014, the revenue of the Group would have been HK$1,624,875,000 and the loss for the year of 2014 would have been HK$94,387,000. The Directors consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

35. OPERATING LEASES

The Group as lessor:

At the end of the reporting period, the Group had contracted with lessees for the following future minimum lease payments:

	2015 HK$'000	2014 HK$'000
Within one year	**3,500**	2,757
In the second to fifth year inclusive	**1,518**	3,527
	5,018	6,284

Property rental income earned during the year was HK$3,630,000 (2014: HK$1,502,000). The properties held at the reporting date have committed tenants for an average terms of two years with fixed rentals.

The Group as lessee:

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2015 HK$'000	2014 HK$'000
Within one year	**1,002**	1,221
In the second to fifth year inclusive	**1,052**	2,194
	2,054	3,415

Operating lease payments represent rentals payable by the Group for certain of its office, retail shop and other premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

36. CAPITAL COMMITMENTS

	2015 HK$'000	2014 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– buildings under construction	**49,279**	167,326
– leasehold improvements	**208,486**	28,795
– plant and machinery	**8,064**	14,215
– furniture, fixtures and office equipment	**1,810**	118
	267,639	210,454

37. RELATED PARTY TRANSACTIONS

Argent Optical Manufactory Limited ("Argent"), a wholly-owned subsidiary of the Company, entered into a relocation agreement with 深圳市橫崗佳兆業投資諮詢有限公司 (Shenzhen Henggang Kaisa Investment Consulting Co., Ltd.) ("Kaisa Property") and 佳兆業集團(深圳)有限公司 (Kaisa Group (Shenzhen) Co., Ltd.) ("Kaisa Shenzhen") on 15th August, 2014 in relation to the Disposal (see note 10) for a total consideration of RMB1,579,700,000 (equivalent to approximately HK$1,989,500,000). On the same day, each of Mr. Ng Hoi Ying, Michael (a director and the chairman of the Company), Mr. Ng Kim Ying (a director of the Company), Mr. Li Chi Hung (a member of the senior management of the Company) and Mr. Hung Chao Chia (a member of the senior management of the Company) (collectively the "Individuals") entered into an individual relocation agreement with Kaisa Property and Kaisa Shenzhen in respect of facilitating Kaisa Property to become the named developer of the Argent Urban Renewal Project and the disposal of four pieces of land owned by the Individuals. Additionally, on 15th August, 2014, Argent and 深圳市全聯行地產顧問有限公司 (Shenzhen Quanlianhang Property Consulting Co., Ltd.) ("QLH Property") entered into an agreement ("Service Agreement") for the provision of consultation services by QLH Property to Argent in relation to the Disposal. Pursuant to the Service Agreement, Argent would pay a total service fee of RMB117,000,000 (equivalent to approximately HK$147,400,000) to QLH Property by instalments. Argent had paid RMB81,900,000 (equivalent to approximately HK$103,789,000) to QLH Property during the year ended 31st December, 2014. As such, the entering into of the Service Agreement between Argent and QLH Property constituted a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and was subject to the reporting, announcement and approval requirements thereunder. The Service Agreement was approved by the independent shareholders of the Company at the special general meeting held on 8th October, 2014.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

37. RELATED PARTY TRANSACTIONS (continued)

Save as disclosed above, the Group entered into the following transactions with related parties during the year:

	An associate		A joint venture	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade sales	**23,567**	7,775	**526**	732
Trade purchases	**3,490**	862	**–**	–

Sales of goods to the associate and joint venture were made at the Group's usual list prices.

Other than the above, the details of loans to, trade receivable from and trade payable to the associate and joint venture are shown in notes 21, 25 and 27 respectively. No guarantees have been given to or received from the associate and joint venture.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2015	2014
	HK$'000	*HK$'000*
Short-term benefits	**10,703**	10,007
Post-employment benefits	**590**	410
	11,293	10,417

The remuneration of executive directors and key executives was determined by the Remuneration Committee having regard to the performance of individuals and market trends. The remuneration of independent non-executive directors was recommended by the board of Directors and approved by the shareholders of the Company at the annual general meeting.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

38. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2015 and 31st December, 2014 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company				Principal activities
			2015		2014		
			Directly	**Indirectly**	Directly	Indirectly	
Allied Power Inc.	British Virgin Islands	C$50,000	**100%**	**–**	100%	–	Investment holding
Apex City Industrial Limited	Hong Kong	HK$100	**–**	**100%**	–	100%	Trading in prescription frames and sunglasses
Argent Optical Manufactory Limited	Hong Kong/ PRC	HK$100,000	**–**	**100%**	–	100%	Manufacture of prescription frames and sunglasses
Arts Optical Company Limited	Hong Kong	HK$1,000,000	**–**	**100%**	–	100%	Trading in prescription frames and sunglasses
Arts Studio Limited (formerly known as Eyeconcept Limited)	Hong Kong	HK$100	**–**	**100%**	–	100%	Trading in prescription frames and sunglasses
Sin Dak Industrial Limited	Hong Kong	HK$40,000	**–**	**100%**	–	100%	Property holding
Stepper Eyewear Limited	Hong Kong	HK$100	**–**	**80%**	–	80%	Trading in prescription frames and sunglasses
Stepper France	France	€50,000	**–**	**64%**	–	80%	Trading in prescription frames and sunglasses
Stepper (UK) Limited	United Kingdom	£5,000	**–**	**60%**	–	80%	Trading in prescription frames and sunglasses
雅視光學發展（深圳）有限公司 Arts Optical Development (Shenzhen) Company Limited	PRC	HK$70,000,000	**–**	**100%** *(Note)*	–	100% *(Note)*	Manufacture of prescription frames and sunglasses
宏懋金屬製品（深圳）有限公司 (known as "Hongmao Metal Products (Shenzhen) Company Limited")	PRC	HK$61,000,000	**–**	**100%** *(Note)*	–	100% *(Note)*	Property holding

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

38. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company				Principal activities
			2015		2014		
			Directly	Indirectly	Directly	Indirectly	
滙駿光學城(河源)有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK$150,000,000	–	100% (Note)	–	100% (Note)	Property holding
惠州市藝駿房地產開發有限公司 (known as "Huizhou Yijun Real Estate Development Company Limited")	PRC	RMB20,000,000	–	100%	–	100%	Property holding

Note: These subsidiaries are registered as wholly foreign-owned companies.

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

None of the subsidiaries had any debt securities subsisting at 31st December, 2015 or at any time during the year.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. These other subsidiaries were mainly established in the PRC and their principal activities are mainly either investment holding or inactive.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

39. FINANCIAL POSITION OF THE COMPANY

	2015 *HK$'000*	2014 *HK$'000*
Non-current Asset		
Investment in a subsidiary	**139,040**	139,040
Current Assets		
Amount due from a subsidiary	**139,624**	139,076
Deposits and prepayments	**286**	277
Tax recoverable	**–**	45
Bank balances	**923**	963
	140,833	140,361
Current Liabilities		
Accrued charges	**1,270**	1,582
Dividend payable	**767**	768
	2,037	2,350
Net Current Assets	**138,796**	138,011
Total Assets less Current Liabilities	**277,836**	277,051
Capital and Reserves		
Share capital	**38,365**	38,365
Reserves *(Note)*	**239,471**	238,686
	277,836	277,051

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 31st March, 2016 and are signed on its behalf by:

Ng Hoi Ying, Michael
DIRECTOR

Ng Kim Ying
DIRECTOR

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2015

39. FINANCIAL POSITION OF THE COMPANY (continued)

Note: The movements in reserves of the Company are presented below:

	Share premium *HK$'000*	**Contributed surplus** *HK$'000* *(Note)*	**Retained profits** *HK$'000*	**Total** *HK$'000*
THE COMPANY				
At 1st January, 2014	113,950	105,369	13,750	233,069
Profit for the year	–	–	29,787	29,787
Dividends paid *(note 13)*	–	–	(24,170)	(24,170)
At 31st December, 2014	113,950	105,369	19,367	238,686
Profit for the year	–	–	29,943	29,943
Dividends paid *(note 13)*	–	–	(29,158)	(29,158)
At 31st December, 2015	113,950	105,369	20,152	239,471

Note: The contributed surplus represents a difference of HK$105,469,000 between the consolidated net asset value of Allied Power Inc. and the nominal amount of the share capital issued by the Company and the subsequent capitalisation of HK$100,000 of nil paid shares of the Company pursuant to the group reorganisation in 1996.

Financial Summary

RESULTS

	Year ended 31st December,				
	2011 *HK$'000*	2012 *HK$'000*	2013 *HK$'000*	2014 *HK$'000*	**2015** ***HK$'000***
REVENUE	1,547,260	1,475,482	1,462,983	1,593,255	**1,382,427**
PROFIT (LOSS) BEFORE TAX	121,444	55,668	59,022	(94,122)	**(36,001)**
INCOME TAX EXPENSE	(8,709)	(5,316)	(10,108)	(4,939)	**(7,296)**
PROFIT (LOSS) FOR THE YEAR	112,735	50,352	48,914	(99,061)	**(43,297)**
PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	112,213	48,854	47,651	(100,927)	**(48,873)**
NON-CONTROLLING INTERESTS	522	1,498	1,263	1,866	**5,576**
	112,735	50,352	48,914	(99,061)	**(43,297)**

ASSETS AND LIABILITIES

	At 31st December,				
	2011 *HK$'000*	2012 *HK$'000*	2013 *HK$'000*	2014 *HK$'000*	**2015** ***HK$'000***
TOTAL ASSETS	1,604,015	1,640,644	1,677,178	2,329,889	**2,081,310**
TOTAL LIABILITIES	(340,266)	(361,503)	(353,994)	(1,120,782)	**(1,002,170)**
	1,263,749	1,279,141	1,323,184	1,209,107	**1,079,140**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	1,259,265	1,273,312	1,316,384	1,200,545	**1,061,910**
NON-CONTROLLING INTERESTS	4,484	5,829	6,800	8,562	**17,230**
	1,263,749	1,279,141	1,323,184	1,209,107	**1,079,140**