Luxxu

2019 Annual Report

Luxxu Group Limited
勵 時 集 團 有 限 公 司

(formerly known as "Time2U International Holding Limited 時間由你國際控股有限公司")
(incorporated in the Cayman Islands with limited liability)
(Stock code: 1327)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. See Ching Chuen
Mr. Yang Xi
Mr. Zou Weikang

Independent Non-Executive Directors
Mr. Yu Chon Man
Ms. Duan Baili
Mr. Zhong Weili

COMPANY SECRETARY

Mr. Lai Nga Ming Edmund

COMMITTEES OF THE BOARD

Audit Committee
Mr. Yu Chon Man *(Chairman)*
Ms. Duan Baili
Mr. Zhong Weili

Remuneration Committee
Mr. Yu Chon Man *(Chairman)*
Mr. Yang Xi
Ms. Duan Baili
Mr. Zhong Weili

Nomination Committee
Mr. Yu Chon Man *(Chairman)*
Mr. See Ching Chuen
Ms. Duan Baili
Mr. Zhong Weili

AUTHORISED REPRESENTATIVES

Mr. See Ching Chuen
Mr. Lai Nga Ming Edmund

STOCK CODE

1327

COMPANY WEBSITE

www.luxxu.hk

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

Room 17, 7/F, Block 1
Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31st Floor, Gloucester Tower
The Landmark
11 Pedder Street Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Industrial and Commercial Bank Limited
China Construction Bank (Asia)
Corporation Limited

RESULTS

	For the year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000 (Restated)	2015 RMB'000
Continuing operations					
Revenue	**91,491**	106,948	115,805	89,627	691,349
Cost of sales	**(77,192)**	(87,871)	(75,151)	(51,246)	(490,614)
Gross profit	**14,299**	19,077	40,654	38,381	200,735
Other income and gain	**1**	43	1	77	4,739
Change on fair value of financial assets at fair value through profit or loss	**(3,400)**	(9,111)	(52,316)	(12,226)	52,791
Realised loss on financial assets at fair value through profit or loss	**–**	(267)	(26,209)	–	–
Provision for inventories	**(56,395)**	(51,846)	–	–	–
Selling and distribution expenses	**(25,826)**	(31,329)	(37,248)	(35,140)	(50,277)
Administrative expenses	**(26,078)**	(22,687)	(20,059)	(14,014)	(76,352)
Impairment of goodwill	**–**	(9,146)	–	–	–
Share of loss on an associate	**–**	–	–	–	(250)
Finance costs	**(1,658)**	(1,462)	(1,806)	(5)	(2,213)
(Loss)/profit before taxation	**(127,017)**	(106,728)	(96,983)	(22,927)	129,173
Taxation	**(35)**	(89)	7,086	1,997	(40,344)
(Loss)/profit for the year from continuing operations	**(127,052)**	(106,817)	(89,897)	(20,930)	88,829
Discontinued operation					
Loss for the year from discontinued operation	**–**	–	(27,178)	(318,271)	–
(Loss)/profit for the year	**(127,052)**	(106,817)	(117,075)	(339,201)	88,829
(Loss)/profit for the year attributable to:					
Owners of the Company	**(127,052)**	(106,817)	(113,184)	(322,514)	85,901
Non-controlling interests	**–**	–	(3,891)	(16,687)	2,928
	(127,052)	(106,817)	(117,075)	(339,201)	88,829

ASSETS AND LIABILITIES

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	**366,058**	483,431	597,097	787,948	850,292
Total liabilities	**(10,074)**	(16,087)	(43,606)	(90,209)	(134,671)
Total equity	**355,984**	467,344	553,491	697,739	715,621

DIRECTOR'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Luxxu Group Limited (the "Company"), I am delighted to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 ("FY 2019").

BUSINESS REVIEW, OUTLOOK AND FUTURE PROSPECTS

During FY2019, the Group changed the company name to Luxxu Group Limited as the Board considers that the new name and new dual foreign name in Chinese of the Company can better reflect the strategic direction and business focus of the Group on luxury market, including but not limited to luxury consumer goods, high-ended watches, jewelleries, and luxury lifestyle consumption products in the future. The Board also believes that the new name can provide the Company with a more defined corporate image and identity which will benefit the business development of the Group and is in the interests of the Company and the Shareholders as a whole.

In 2019, the Group continued to focus on its business operations which (i) cooperate with different industry experts to design and sales of prestige and high-end watches and accessories, including but not limited to diamond tourbillon watches and luxury jewellery watches; (ii) design, production and assembly of watches for our OEM customers; and (iii) manufacture and sales of our own brands watches.

Due to the prolonged Sino-US trade dispute, the sales in FY2019 has been affected due to the uncertainties which may bring from the Sino-US trade dispute and also the moderation in retail sales in Hong Kong because of the social demonstration. According to the statistics from The Census and Statistics Department, retail sales of the jewellery, watches and clocks, and valuable gifts category in Hong Kong has decreased approximately 21%, 41% and 47% for FY2019, 6 months and 3 months ended 31 December 2019 respectively, when comparing with 2018.

Going forward, the Group aimed to offer premium quality products to customers and will continue to strengthen our core competitiveness by improving our watch and jewellery design and development capabilities by upholding the design and artistic knowledge of the design team and recruitment of additional talents. In view of the Sino-US trade dispute mentioned above, the cooling economy in the PRC and also the outbreak of the coronarius in Hong Kong and the PRC, the Group expects 2020 will be a challenging year. The Group will closely monitor the market response and remix the business and product portfolio to suit the market needs, including but not limited to design, manufacture and sales of prestige and high-end watches and jewelleries and stay competitive.

Although there is a cooling economy in the PRC, in view of (i) the growing middle-class, (ii) increase of disposal income, in particular among Chinese women; and (iii) the rising women's job participation rate, the Group still believe that there is a strong force behind the consumption of prestige and high-end watches and luxury jewelleries and accessories in long run. The Group should allocate more resources and effort to strengthen our design team and consider crossover design with some famous designer so that the Group can offer fashionable and affordable watches and jewelleries suitable for wearing in workplace.

Looking beyond the near-term uncertainties, the Group remains committed to seeking and seizing new opportunities, and is well-prepared to shine in the future.

APPRECIATION

I would like to take this opportunity to express my gratitude to the Board for its brilliant leadership, to the Company's shareholders for their strong support, and to the community for their enthusiastic help, and last but not least, to our staff for their dedicated efforts.

Yang Xi
Executive Director

Hong Kong, 31 March 2020

FINANCIAL REVIEW

Revenue

Our revenue decreased by approximately RMB15.4 million or approximately 14.4% from approximately RMB106.9 million for the year ended 31 December 2018 to approximately RMB91.5 million for the year ended 31 December 2019. The decrease in revenue was mainly attributable to (i) decrease of sales demand watches due to the uncertainties which may bring from Sino-US trade dispute and also the ongoing political and social unrest in Hong Kong; and (ii) the decrease in average selling price for the year ended 31 December 2019.

Cost of sales

Our cost of sales decreased by approximately RMB10.7 million or approximately 12.2% from approximately RMB87.9 million for the year ended 31 December 2018 to approximately RMB77.2 million for the year ended 31 December 2019. The decrease was in line with the decrease in revenue.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB4.8 million or approximately 25.1% from approximately RMB19.1 million for the year ended 31 December 2018 to approximately RMB14.3 million for the year ended 31 December 2019 which was in line with the decrease in the average selling price for the year ended 31 December 2019. Our overall gross profit margin decreased from approximately 17.8% for the year ended 31 December 2018 to approximately 15.6% for the year ended 31 December 2019. The decrease was mainly attributable to the decrease in average selling price during the year ended 31 December 2019.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately RMB5.5 million or approximately 17.6% from approximately RMB31.3 million for the year ended 31 December 2018 to approximately RMB25.8 million for the year ended 31 December 2019. The decrease was in line with the decrease of revenue.

Administrative expenses

Our administrative expenses increased by approximately RMB5.5 million or approximately 26.7% from approximately RMB20.6 million for the year ended 31 December 2018 to approximately RMB26.1 million for the year ended 31 December 2019. The increase was mainly attributable to the absence of share based payment expense of approximately RMB6.3 million.

Loss before taxation

As a result of the foregoing, our loss before taxation increased by approximately RMB20.3 million to approximately RMB127 million for the year ended 31 December 2019 as against a loss before taxation of approximately RMB106.7 million for the year ended 31 December 2018.

Taxation

Our income tax expense was RMB89,000 for the year ended 31 December 2018 and our income tax expense was approximately RMB35,000 for the year ended 31 December 2019.

Loss for the year

As a result of the foregoing, we recorded a loss for the year of approximately RMB127.1 million for the year ended 31 December 2019 as against a loss for the year of approximately RMB106.8 million for the year ended 31 December 2018.

FINANCIAL POSITION

The Group funded its liquidity and capital requirements primarily through cash inflows from operating activities.

As at 31 December 2019, the Group's total cash and bank balances were approximately RMB1.9 million (31 December 2018: approximately RMB6.5 million), most of which are held in RMB and HKD. The current ratio (defined as current assets divided by current liabilities) of the Group increased from 27.9 times as at 31 December 2018 to 33.2 times as at 31 December 2019. The gearing ratio (defined as total interest-bearing borrowings divided by shareholders' equity) of the Group decreased from approximately 1.3% as at 31 December 2018 to zero as there was no interest-bearing borrowings as at 31 December 2019.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not carry out any material acquisition nor disposal of any subsidiaries for the year ended 31 December 2019.

SIGNIFICANT INVESTMENTS IN LISTED SECURITIES

Name of investee	As at 1 January 2019 RMB'000	Loss on disposal RMB'000	Fair value loss RMB'000	As at 31 December 2019 RMB'000	Percentage to the Group's audited total assets as at 31 December 2019 %	Number of shares held by the Group as at 1 January 2019	Percentage of shareholding held by the Group as at 1 January 2019 %	Number of shares held by the Group as at 31 December 2019	Percentage of shareholding held by the Group as at 31 December 2019 %
Significant investments									
China Automotive Interior Decoration Holdings Limited ("China Automotive") (stock code: 48.HK) (note)	4,382	–	(1,513)	2,492	0.7%	16,355,200	4.11%	16,355,200	4.11%
Other listed securities	3,701	–	(1,887)	5,082	1.4%				
Total	10,828	–	(3,400)	7,574	2.1%				

Note:

China Automotive is principally engaged in the manufacture and sale of nonwoven fabric products used in automotive interior decoration parts and other parts, trading of rubber and food products. Based on China Automotive's unaudited annual result announcement for the year ended 31 December 2019, revenue and loss of China Automotive was approximately RMB260,896,000 and RMB30,176,000 respectively.

The future performance of the listed securities may be influenced by the Hong Kong stock market. In this regard, the Group will continue to maintain a diversified investment portfolio and closely monitor the performance of its investments and the market trends to adjust its investment strategies.

Except the significant investments disclosed above, at 31 December 2019, there was no investment held by the Group the value of which was more than 5% of the total assets of the Group and no investment held by the Group contributed more than 10% of the realised or unrealised loss for the year ended 31 December 2019.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 113 (2018: 179) employees. The total remuneration costs incurred by the Group for the financial year 2019 were approximately RMB8 million (2018: approximately RMB11.7 million). We review the performance of our employees annually and use the results of such review in our annual salary review and promotion appraisal, in order to attract and retain valuable employees.

DEBTS AND CHARGE ON ASSETS

As at 31 December 2019, none of the assets of the Group has been pledged to secure any banking facilities granted to the Group (2018: Nil).

FOREIGN CURRENCY RISK

The Group mainly operates in the PRC and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB and United States dollars ("USD"). During the years ended 31 December 2019 and 2018, the Group has not entered into any hedging arrangements. However the management will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

CAPITAL COMMITMENTS

The Group had no capital commitments as at 31 December 2019 and 2018.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2019 and 2018.

FINAL DIVIDENDS

The Board did not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

EVENT AFTER THE END OF THE REPORTING PERIOD

(a) On 31 March 2020, the Company completed the consolidation of shares in the issued shares of the Company whereby every ten issued and unissued ordinary shares of HK$0.01 each are consolidated into one consolidated ordinary share of HK$0.1 each (the "Share Consolidation").

(b) Since January 2020, the outbreak on Novel Coronavirus ("COVID-19") has impacted the global business environment. Up to the date of these financial statements, COVID-19 has significant decrease in the Group's revenue. Pending the development and spread of COVID-19 subsequent to the date of the financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

REPORT OF THE DIRECTORS

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in the manufacture and sales of own-branded watches and jewelleries, including but not limited to diamond watches, tourbillon watches and luxury jewellery accessories, OEM watches and third-party watches. Details of the principal activities of the principal subsidiaries are set out in Note 33 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2019.

The Group's revenue for the year is principally attributable to manufacturing, trading and retailing of watches and jewelleries. An analysis of the revenue from the principal activities during the year is set out in the section headed "Management Discussion and Analysis" in the annual report and Note 8 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Company and the Group as at that date are set out in the consolidated statement of profit or loss and other comprehensive income on page 32 of this annual report.

BUSINESS REVIEW

During the year of 2019, the Group's net loss was amounted to approximately RMB127.1 million, as against net loss of approximately RMB106.8 million for the corresponding year ended 31 December 2018. Information relating to the Group business is set out in the section headed "Director's Statement" and "Management Discussion and Analysis" of this annual report.

MAJOR RISKS AND UNCERTAINTIES

The Group's business operations are affected by changes in market conditions, the changing industry standards, industry competition and the ever-changing customer demands. It is essential that the Group responds in a timely manner to such changes which may adversely affect the Group's business and financial results. The Group also faces other financial risks in the ordinary course of business, such as liquidity risk, interest rate risk and currency risk. Details of financial risk management are set out in Note 6 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 28 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 35 of this annual report and in Note 29 to the consolidated financial statements, respectively. The Company's reserves available for distribution to Shareholders are set out in Note 29 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the Directors' best knowledge as at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed public float as required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since the date of listing of the Company's shares on 30 January 2015 (the "Listing Date") and up to the date of this report.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

TAX RELIEF

The Company is not aware of any relief from taxation available to the Company's shareholders by reason of their holdings in the Company's shares.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of turnover of the Group attributable to the largest customer and the five largest customers in aggregate are 7% and 32% respectively. The percentage of purchases of the Group attributable to the largest supplier and the five largest suppliers in aggregate are 17% and 42% respectively. None of the Directors, their associates or any shareholders (which to the best knowledge of the Directors own more than 5% of the Company's issued share capital) had an interest in the five major customers or suppliers of the Group.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Yang Xi
Mr. Zou Weikang
Mr. See Ching Chuen

Independent Non-Executive Directors

Mr. Yu Chon Man
Ms. Duan Baili
Mr. Zhong Weili

In accordance with Articles 84 of the articles of association of the Company, the following Directors, namely, Messrs, Mr. Zou Weikang and Mr. Zhong Weili, will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, would offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on page 17 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors, including those proposed for re-election at the forthcoming annual general meeting, has a service agreement which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE OFFICER EMOLUMENTS

The emoluments of the Directors are determined by the Board, with reference to the individual performance, the prevailing market conditions and the Company's operating results.

Details of Directors' emoluments on a named basis are set out in Note 13 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 19 December 2014.

The total number of securities available for issue under the Share Option Scheme as at the date of this report was 38,167,000 shares.

The details of the movements in the number of share options granted during the year were as follows:

	Date of grant	Exercise price before share consolidation which completed on 31 March 2020	Exercise price after share consolidation which completed on 31 March 2020	Exercised period	Before share consolidation which completed on 31 March 2020 Outstanding at 1 January 2019 '000	Granted during the year '000	Exercised during the year '000	Lapsed/Forfeited during the year '000	Outstanding at 31 December 2019 '000	Outstanding as at 31 December 2019 after share consolidation which completed on 31 March 2020 '000
Employees and consultants	16 June 2015	HK$0.726	HK$7.26	16 December 2015 to 15 June 2025	36,070	–	–	–	36,070	3,607
	11 April 2019	HK$0.041	HK$0.41	11 April 2019 to 10 April 2029	345,600	–	–	–	345,600	34,560
Total					381,670	–	–	–	381,670	38,167

Particulars of the Share Option Scheme are set out in Note 31 to the consolidated financial statements.

On 31 March 2020, the Company completed the consolidation of shares in the issued shares of the Company whereby every ten issued and unissued ordinary shares of HK$0.01 each are consolidated into one consolidated ordinary share of HK$0.1 each.

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

ADOPTED CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 code of conduct regarding securities transactions by the Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code since the Listing Date and up to the date of this report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

So far as known to the Directors, as at 31 December 2019, none of the Directors or chief executive had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which would fall to be disclosed to the Company and the Stock Exchange pursuant to Division 7 and 8 at the Part XV of the SFO; or interest or short positions required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; or interests or short positions which fall to be disclosed to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company or any of its subsidiaries did not have any arrangement in place at any time during the period whereby the Directors or their respective spouse or minor children can obtain benefit by acquiring the Shares of the Company or other body corporate.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 164 of the Company's Articles of Association, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which the Directors or any of them, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty in their respective offices or otherwise in relation thereto provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said persons.

Permitted indemnity provision to all Directors is in force at the time when the Directors approved the Directors' report.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a material interest, either directly or indirectly, in any transaction, arrangement or, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party at any time during the year ended 31 December 2019.

COMPETING INTEREST

None of the Directors had an interest in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group throughout the year ended 31 December 2019.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors, namely Mr. Yu Chon Man, Ms Duan Baili and Mr. Zhong Weili has confirmed to the Company their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

ENVIRONMENTAL POLICIES

The Group is committed to the long term sustainability of the environment and communities in which it operates. The Group is committed to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

We strive to minimize our environmental impact by energy saving, recycling of used papers, office supplies and other materials.

ENVIRONMENTAL, SOCIAL AND GOVERNMENT REPORT

The Group endeavors to monitor and minimize impact to the environment. For the purpose of disclosing the information in relation to environmental, social and government ("ESG") in accordance with the ESG Reporting Guide in Appendix 27 to the Listing Rules, an ESG report of the Company will be published within three months after the publication of the annual report of the Company.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2019, as far as the Company is aware, there was no material breach of or noncompliance with the relevant laws and regulations by our Group that have a significant impact on the business and operations of the Group.

RELATIONS WITH KEY STAKEHOLDERS

The Board recognises that our employees are one of the greatest assets contributing to the Group's future success. The Group strives to motivate its employees with competitive remuneration package and opportunities for advancement and improvement of their skills to attract and retain our employees. The Board reviews the remuneration package of our employees annually and makes necessary adjustments to conform to the prevailing market practices. The Group also adopted share options scheme to reward the contribution of the employees as an incentive.

The Board also strives to develop long-standing and good relationships with our customers and suppliers in order to achieve the Group's long-term goals.

During the year, there was no significant dispute between the Group and our business partners.

AUDITORS

HLB Hodgson Impey Cheng Limited retires and, being eligible, offers itself for re-appointment. A resolution for the reappointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Yang Xi
Executive Director

Hong Kong, 31 March 2020

EXECUTIVE DIRECTORS

Mr. See Ching Chuen（施清泉先生）, aged 58, is an executive Director. He was appointed as an executive Director with effect from March 2015. He has more than 17 years' experience in management and business strategic planning. He was an executive director of a company listed on the Growth Enterprise Market of The Stock Exchange, namely Longlife Group Holdings Limited (currently known as Rui Kang Pharmaceutical Group Investments Limited) (stock code: 8037) from June 2012 to May 2013. Mr. See has been the shareholder and director of Han Telecom Company Limited since 1997.

Mr. Yang Xi（楊淅先生）, aged 30, is an executive Director. He has years of experience in sales and marketing and obtained a Master degree in Computer Engineering from Guizhou University（貴州大學）in 2014. Mr. Yang did not hold any other directorship in any public listed companies during the last three years before the date of this report.

Mr. Zou Weikang（鄒偉康先生）, aged 28, is an executive Director. He has years of experience in investment and finance. Mr. Zou graduated from Shenzhen Polytechnic（深圳職業技術學院）in finance and securities（金融與證券專業）in 2013. Mr. Zou did not hold any other directorship in any public listed companies during the last three years before the date of this report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Chon Man（余俊敏先生）, aged 42, is an independent non-executive Director, who was appointed in December 2014, and responsible for overseeing the management of our Group independently. Mr. Yu has over 14 years of experience in the accounting and finance industry. He has been the financial controller, qualified accountant and company secretary of China Singyes Solar Technologies Holdings Limited（中國興業太陽能技術控股有限公司）(stock code: 750), a company listed on the Stock Exchange specialised in the manufacture and sale of solar power products, since June 2008 and appointed as chief financial officer since October 2016 which responsible for its financial reporting and general investor affairs. He was an independent non-executive Director of the Sky Forever Supply Chain Management Group Limited（宇恒供應鏈集團有限公司）(stock code: 8047) (formerly known as Rising Power Group Holdings Limited（昇力集團控股有限公司）), a company listed on the Stock Exchange specialised in supply chain management, from June 2014 to July 2014. He has been an independent non-executive director of Winto Group (Holdings) Limited (stock code: 8238), a magazine publishing group from January 2015 to May 2016. Mr. Yu received a bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 2001. He has been a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants since December 2004 and July 2005, respectively.

Ms. Duan Baili（段白麗女士）, aged 30, is an independent non-executive director. She has over 7 years experience in marketing and manufacturing in precision component industry. She currently serves as an assistant of general manager of a manufacturing company in the People's Republic of China. She is familiar with the operations of the manufacture and marketing of precision components and has thorough knowledge of precision components and the precision component industry.

Mr. Zhong Weili（鍾維立先生）, aged 47, is an independent non-executive director. He has over 20 years experiences of administration and management in asset appraisal industry, of which 4 years working in state owned assets management bureau of Meizhou city of Guangdong Province. He is currently an office director of an asset appraisal company in The People's Republic of China, which engaged in corporate valuation and assets valuation (including but not limited to property, machinery and intangible assets).

COMPLIANCE WITH CG CODE

The Board has reviewed the Company's corporate governance practices and is satisfied that it has been adopted and complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules throughout the year ended 31 December 2019 expect for the following deviation:

Code provision A.6.7 of the Corporate Governance Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Due to other business engagement, the independent non-executive Director, Mr. Zhong Weili, was unable to attend the annual general meeting of the Company held on 13 June 2019. For deviations from code provision A.6.7 of the Corporate Governance Code, the Company Secretary had reminded the relevant independent non-executive Director to attend general meetings of the Company in future.

THE BOARD

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibilities to create value for shareholders and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith. The management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

The Board comprises 6 Directors, including 3 executive Directors, and 3 independent non-executive Directors, in compliance with the requirement of Listing Rules which states that every board of Directors of an issuer must include at least 3 independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Under code provision A.1.3 of the CG Code, notice of at least 14 days should be given of a regular board meeting to all Directors to give all Directors an opportunity to attend. During the year, certain Board meetings were convened with less than 14 days' notice to facilitate the Directors' timely reaction and expeditious decision making process in respect of investment opportunity and internal affairs of the Group. All Board meetings, nevertheless, were duly convened and held in the way prescribed by the Articles of Association of the Company. The Board will use reasonable endeavour to meet the requirement of code provision A.1.3 of the CG Code in future.

There is no relationship, including financial, business, family or other material/relevant relationship(s) between members of the Board.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realising the strategies and goals of the Group;
- overseeing the corporate governance functions of the Company and being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;

- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to interim and annual reports of the Company, other inside information announcements published according to the Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information discloseable under statutory requirements;
- whilst executive Directors/chief executives, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy;
- the management is well informed of its power with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company; and
- regularly reviewing its own functions and the powers conferred upon executive Directors/chief executives to ensure appropriate arrangements are in place.

COMMITMENTS

The full Board should meet at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of independent non-executive Directors are actively sought by the Company if they are unable to attend the meeting in person.

EXPERIENCE

Executive Directors possess administrative leadership, diversified expertise and extensive industrial management experience. Independent non-executive Directors possess extensive expertise, experience and judging capability in various fields, in particular the appropriate accounting qualifications possessed by Mr. Yu Chon Man. During its decision-making process, the Board holds in high regard the views of the independent non-executive Directors, who serve as the effective direction in assisting the Group's operations.

BOARD MEETING

During the financial year of 2019 under review, 4 board meetings were held and the attendance of each Director at the Board meetings was as follows:

	Attendance/ Number of meetings
Executive Directors	
Mr. See Ching Chuen	3/4
Mr. Yang Xi	4/4
Mr. Zou Weikang	3/4
Independent Non-Executive Directors	
Mr. Yu Chon Man	4/4
Ms. Duan Baili	4/4
Mr. Zhong Weili	4/4

CODE FOR DEALING IN SECURITIES OF THE COMPANY

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 code of conduct regarding securities transactions by the Directors. All Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

APPOINTMENT OF DIRECTORS

During their terms of office, all Directors carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. Meanwhile, they carried out the duties of directors imposed by the relevant company laws of the Cayman Islands and Hong Kong, the articles of association of the Company and the Listing Rules, complied with the relevant requirements, strictly implemented resolutions of general meetings, promoted the continuous and healthy development of the Company's operations, oversaw the corporate governance of the Company, pressed for the improvement of the governance standard of the Company and exerted the decision making function of the Board in its full swing. None of the independent non-executive Directors holds any other offices in the Company or any of its subsidiaries. Within the meaning of the laws and regulations issued by relevant securities regulatory authorities, none of the independent non-executive Directors is interested in any shares of the Company. The Company has received from each of the independent non-executive Directors a written confirmation of his independence under Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Names and biography of the Directors are set out on page 17 of this annual report.

AUDIT COMMITTEE

The audit committee (the "Audit Committee") consists of three members, all being independent non-executive Directors, namely, Mr. Yu Chon Man (Chairman), Ms. Duan Baili and Mr. Zhong Weili. The duties of the Audit Committee include, without limitation, (a) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of the Group's financial statements, annual report and accounts and half-year report, and reviewing significant financial reporting judgments contained therein; (c) reviewing the Group's financial control, internal control and risk management systems; and (d) reviewing reports made by the corporate guarantee committee, a committee closely monitoring the Group's activities for the provision of corporate guarantee and to enforce the prohibition on provision of corporate guarantee to any party other than member of the Group. The Group's annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee.

During the financial year of 2019 under review, 3 audit committee meetings were held and the attendance of members at the meetings was as follows:

	Attendance/ Number of meetings
Mr. Yu Chon Man	3/3
Ms. Duan Baili	3/3
Mr. Zhong Weili	3/3

During the committee meetings held in the financial year of 2019, the summary of work of Audit Committee as below:

– Reviewing the financial reports and results announcement for the year ended 31 December 2018 and for the six months ended 30 June 2019

– Reviewing the Group's financial and accounting policies and practices

REMUNERATION COMMITTEE

The Company established a remuneration committee on 19 December 2014 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The duties of the remuneration committee, under the principle that no Director should be involved in deciding his own remuneration, include, without limitation, (a) making recommendations to the Board on the Company's policy and structure for the remuneration of all of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to the Board on the remuneration packages of the executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their offices or appointments, and making recommendations to the Board of the remuneration of the non-executive Directors; and (c) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The remuneration committee consists of Mr. Yu Chon Man, Mr. Yang Xi, Ms. Duan Baili and Mr. Zhong Weili. Mr. Yu Chon Man is the chairman of the remuneration committee.

During the financial year of 2019 under review, 2 remuneration committee meetings were held and the attendance of members at the meetings was as follows:

	Attendance/ Number of meetings
Mr. Yu Chon Man	2/2
Mr. Yang Xi	2/2
Ms. Duan Baili	2/2
Mr. Zhong Weili	2/2

During the committee meetings held in the financial year of 2019, the summary of work of Remuneration Committee as below:

– Reviewing and making recommendations to the Board in respect of the remuneration packages and overall benefits for the Directors and senior management of the Company

– To ensure that none of the Directors or any of their associates should determine their own remuneration

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The main aims of the Company's remuneration policy are:

- to ensure that none of the Directors or any of their associates should determine their own remuneration;
- the remuneration should be broadly aligned with companies with which the Company competes for human resources;
- the Group should aim to attract and retain executives and to motivate them to pursue appropriate growth strategies whilst take into account individual performance and should avoid paying more than necessary for such purpose;
- the remuneration should reflect the performance, complexity of duties and responsibility of the individual; and
- to review the effectiveness of diversity on the Board.

NOMINATION COMMITTEE

The Company established a nomination committee on 19 December 2014 with written terms of reference in compliance with paragraph A5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The duties of the nomination committee include, without limitation, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Group's corporate strategy; (b) identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of the independent non-executive Directors; and (d) making recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive.

The nomination committee consists of Mr. Yu Chon Man, Mr. See Ching Chuen, Ms. Duan Baili and Mr. Zhong Weili. Mr. Yu Chon Man is the chairman of the nomination committee.

During the financial year of 2019 under review, 2 nomination committee meetings were held and the attendance of members at the meetings was as follows:

	Attendance/ Number of meetings
Mr. Yu Chon Man	2/2
Mr. See Ching Chuen	2/2
Ms. Duan Baili	2/2
Mr. Zhong Weili	2/2

During the committee meetings held in the financial year of 2019, the summary of work of Nomination Committee as below:

– Making recommendations to the Board on the appointment or reappointment of Directors

– Reviewing the structure, size and composition of the Board

CORPORATE GUARANTEE COMMITTEE

The Company established a corporate guarantee committee (the "Corporate Guarantee Committee") in July 2014, the members of which comprise the independent non-executive Director, Mr. Zhong Weili, and the finance manager of our Group to closely monitor the Group's activities for the provision of corporate guarantees and to enforce the prohibition on provision of corporate guarantees to any non-group member. The Corporate Guarantee Committee is to report to the Audit Committee on a half-yearly basis on its work and information relating to the provision of corporate guarantees in such period (if any). The Corporate Guarantee Committee is to review monthly reports from our finance department on the corporate guarantees provided for the preceding month and from the chief executive officer's office on the use of company stamps to the Corporate Guarantee Committee. If it is discovered that a corporate guarantee was provided to a non-group member, the Corporate Guarantee Committee should immediately report the fact to the Board and the Audit Committee and take appropriate remedial actions. Up to the date of this report, no provision of corporate guarantees to any non-group member was noted by the Corporate Guarantee Committee.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge that it is the responsibility of the Directors for the preparation of accounts for each financial period by the management. Subsequent to each reporting period, interim or annual financial highlights and business review are published as soon as possible (or in accordance with the Listing Rules, as the case may be) to disclose all information that are necessary for shareholders to assess the performance, financial conditions and prospects of the Company. The Directors are not aware of any material uncertainties relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

The Board has the responsibility to regularly review the internal control and risk management systems of the Company to ensure their effectiveness and efficiency. With the support of the internal audit team, the practices, processes, expenses and internal control of the Company and its subsidiaries are reviewed on a regularly basis. Matters of importance reported by the internal audit team are monitored regularly by the management to ensure remedial measures are implemented as appropriate. The Board and senior management may also require the internal audit team to conduct auditing procedures on special scopes of importance and report significant findings to the Board and the audit committee.

For the year under review, the remuneration payable for audit and non-audit services provided by the auditors is approximately RMB916,000 and RMB84,000 respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The internal control system includes safeguarding of the interest of shareholders and the Group's assets. It has been an important duty of the Board to conduct a review of internal control system to ensure the effectiveness and adequacy of the system of the Group annually or at any time necessary. The review covers all material controls, including financial, operational and compliance controls, as well as risk management functions.

The Group has engaged an independent internal control review advisor (the "Internal Control Advisor") to conduct the annual review on the effectiveness of the internal control system. Review of the Group's internal controls covered major operational, financial and compliance controls, as well as risk management functions of different systems has been performed on a systematic rotational basis on the risk assessments of the operations and controls. During the risk assessment process, the Internal Control Advisor interviewed the relevant personnel and identified the business objectives and significant risks of the Group. A risk management report prepared by the Internal Control Advisor which sets out the risks, issues and recommended action plan was presented to the Board for review and endorsement. The Board considered that significant risks of the Group were managed within the acceptable level and the management will continue to monitor the residual risks and report to the Board on ongoing basis.

For the year ended 31 December 2019, the Board has reviewed the effectiveness of the internal control system and they consider them effective and adequate.

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the terms of reference on corporate governance functions. The terms of reference of the Board in respect of corporate governance function are summarised as follows:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Code Provisions and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions since the Listing Date up to the date of this report included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy which aims to set out the approach to achieve diversity on the Board. The Company aims to build and maintain a Board with a diversity of Directors, in terms of skills, experience, knowledge, expertise, culture, independence, age and gender appropriate for the requirements of the business development of the Group.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- delivery of the interim and annual results and reports to all shareholders;
- publication of announcements on the interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Board has maintained an on-going dialogue with Shareholders and investors, and will regularly review this policy to ensure its effectiveness. Information will be communicated to Shareholders and investors mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the information submitted by the Company to the website of the Stock Exchange and its corporate communications on the Company's website. Shareholders can direct their questions about their shareholdings to the Company's branch share registrar in Hong Kong. Shareholders and investors may at any time make a request for the Company's information to the extent such information is publicly available.

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

The Directors are committed to complying with code provision A.6.5 of the CG Code on Directors' training effective from 1 April 2012. All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

Up to the date of this report, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills during the year.

COMPANY SECRETARY

Mr. Lai Nga Ming Edmund ("Mr. Lai") was the company secretary of the Company. He is responsible to the Board for ensuring the board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is briefed on relevant legislative, regulatory and corporate governance developments. Mr. Lai has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge during the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Requisitionist(s)") shall at all times have the right, by written requisition (the "Requisition") to the Board or the company secretary of the Company, to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition. The Requisition shall be made in writing to the Board or the company secretary of the Company at the following:

Principal place of business of the Company in Hong Kong

Address: Room 17, 7/F, Block 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong

Email: team@luxxu.hk

Attention: Board of Directors/Company Secretary

The Requisition must state clearly the name of the Requisitionist(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda of the EGM including the details of the business(es) proposed to be transacted at the EGM, signed by the Requisitionist(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the Requisitionist(s) will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Board will convene the EGM within two months and/or include the proposal or the resolution proposed by the Requisitionist(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Requisitionist(s) concerned will be advised of this outcome and accordingly, the Board will not convene an EGM and/or include the proposal or the resolution proposed by the Requisitionist(s) at the EGM.

If within 21 days of such deposit, the Board has not advised the Requisitionist(s) of any outcome to the contrary and fails to proceed to convene the EGM, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company to the principal place of business of the Company in Hong Kong.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year ended 31 December 2019.

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
LUXXU GROUP LIMITED (FORMERLY KNOWN AS TIME2U INTERNATIONAL HOLDING LIMITED)
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Luxxu Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 96, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses assessment of trade and other receivables	
Refer to Note 20 and 21 to the consolidated financial statements and the accounting policies in note 4 to the consolidated financial statement.	
The Group had trade and other receivables with gross carrying amount of approximately RMB130,879,000 and RMB62,199,000 respectively, and provision for allowance for expected credit losses of approximately RMB35,038,000 and RMB3,662,000 respectively. In general, the trade receivables credit terms granted by the Group to the customers ranged between 0-180 days. Management performed periodic assessment on the recoverability of the trade and other receivables and the sufficiency of provision for allowance for expected credit losses based on information including credit profile of different customers, aging of the trade and other receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the allowance for expected credit losses assessment. We focused on this area due to the allowance for expected credit losses assessment of trade and other receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to management's impairment assessment of the trade and other receivables as at 31 December 2019 included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis; • Checking, on a sample basis, the aging profile of the trade and other receivables as at 31 December 2019 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade and other receivables past due as at year end and corroborating explanations from management with supporting evidence, such as understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and • Assessing the appropriateness of the expected credit losses provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. We found that the management judgment and estimates used to assess the recoverability of the trade and other receivables and determine the impairment provision to be supportable by available evidence.

Key audit matter	How our audit addressed the key audit matter
Carrying value of inventories	
Refer to note 19 to the consolidated financial statements and the accounting policies in note 4 to the consolidated financial statements.	
As at 31 December 2019, the Group had inventories of approximately RMB82,078,000 and provision of inventories of approximately RMB56,395,000. Because of the deterioration of quality of the Group's raw material, significant judgement and estimation by management are involved in identifying inventories with net realisable value that are lower than their cost, and obsolescence with reference to the estimated subsequent selling price.	Our procedures in relation to management's assessment on carrying value of inventories included: • Obtaining an understanding of how the management estimated the net realisable value of inventories and evaluating the historical accuracy of the allowance estimation by management; • We evaluated management's assessment of provision of inventories with reference to their aging, the condition of inventories during our observation of physical inventory count; and • Selecting sample of inventories and reviewing their net realisable values with reference to their selling prices subsequent to the end of the reporting period. We found the carrying values of the inventories was supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("Other Information").

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Mr. Tien Sun Kit, Jack.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practicing Certificate Number: P07364

Hong Kong, 31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
Revenue	8	**91,491**	106,948
Cost of sales		**(77,192)**	(87,871)
Gross profit		**14,299**	19,077
Other income and gain	9	**1**	43
Change in fair value of financial assets at fair value through profit or loss		**(3,400)**	(9,111)
Realised loss on disposal of financial assets at fair value through profit or loss		**–**	(267)
Provision for inventories		**(56,395)**	(51,846)
Selling and distribution expenses		**(25,826)**	(31,329)
Administrative expenses		**(26,078)**	(20,584)
Allowance for expected credit losses, net		**(27,960)**	(2,103)
Impairment loss on goodwill	17	**–**	(9,146)
Finance costs	10	**(1,658)**	(1,462)
Loss before taxation		**(127,017)**	(106,728)
Taxation	11	**(35)**	(89)
Loss for the year	12	**(127,052)**	(106,817)
Other comprehensive income for the year, net of tax			
Exchange differences on translation of foreign operations		**9,356**	28,800
Other comprehensive income for the year, net of tax		**9,356**	28,800
Total comprehensive loss for the year		**(117,696)**	(78,017)
			(Restated)
Loss per share attributable to owners of the Company			
Basic and diluted (RMB)(cents)	16	**36.76**	30.91

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	18	**28,088**	31,727
Goodwill	17	**3,327**	3,100
		31,415	34,827
Current assets			
Inventories	19	**82,078**	149,296
Trade receivables	20	**95,841**	72,179
Financial asset at fair value through profit or loss	23	**7,574**	10,828
Deposits, prepayments and other receivables	21	**147,299**	209,806
Cash and bank balances	22	**1,851**	6,495
		334,643	448,604
Liabilities			
Current liabilities			
Trade payables	24	**3,922**	3,658
Accruals and other payables	25	**5,909**	6,284
Income tax payables		**243**	145
Obligations under finance lease			
– due within one year	26	**–**	6,000
		10,074	16,087
Net current assets		**324,569**	432,517
Total assets less current liabilities		**355,984**	467,344
Net assets		**355,984**	467,344

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Equity			
Share capital	28	**29,181**	29,181
Reserves		**326,803**	438,163
Total equity		**355,984**	467,344

The consolidated financial statements on pages 32 to 96 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

Yang Xi
Executive Director

See Ching Chuen
Executive Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital RMB'000	Share premium RMB'000	Foreign currency translation reserve RMB'000 (Note (i))	Share option reserve RMB'000 (Note (ii))	Retained earnings/ (Accumulated losses) RMB'000	Total RMB'000
At 31 December 2017	29.181	471,765	(13,824)	15,275	51,094	553.491
Effect of adjustment on adoption of HKFRS 9	–	–	–	–	(8,130)	(8,130)
At 1 January 2018 (Restated)	29,181	471,765	(13,824)	15,275	42,964	545,361
Loss for the year	–	–	–	–	(106,817)	(106,817)
Other comprehensive loss for the year	–	–	28,800	–	–	28,800
Total comprehensive loss for the year	–	–	28,800	–	(106,817)	(78,017)
Release upon lapsed share options	–	–	–	(5,500)	5,500	–
At 31 December 2018	**29,181**	**471,765**	**14,976**	**9,775**	**(58,353)**	**467,344**
At 1 January 2019	**29,181**	**471,765**	**14,976**	**9,775**	**(58,353)**	**467,344**
Loss for the year	**–**	**–**	**–**	**–**	**(127,052)**	**(127,052)**
Other comprehensive loss for the year	**–**	**–**	**9,356**	**–**	**–**	**9,356**
Total comprehensive loss for the year	**–**	**–**	**9,356**	**–**	**(127,052)**	**(117,696)**
Share-based payment expenses	**–**	**–**	**–**	**6,336**	**–**	**6,336**
At 31 December 2019	**29,181**	**471,765**	**24,332**	**16,111**	**(185,405)**	**355,984**

Notes:

(i) This reserve comprises all foreign exchange difference arising from the translation of the financial statements of foreign operations.

(ii) This reserve represents the fair value of the actual or estimated number of unexercised share options granted to eligible persons, including any full-time and part-time employee, director or consultant of the Company and its subsidiaries or any associate of the Company, recognised in accordance with accounting policy in note 4.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Operating activities			
Loss before taxation		**(127,017)**	(106,728)
Adjustment for:			
Interest income	9	**(1)**	–
Dividend income	9	**–**	(43)
Finance costs	10	**1,658**	1,462
Provision for inventories	19	**56,395**	51,846
Depreciation of property	12	**4,418**	4,350
Impairment loss on goodwill		**–**	9,146
Change in fair value of financial asset at fair value through profit or loss		**3,400**	9,111
Share-based payment expenses	12	**6,336**	–
Realised loss on financial assets at fair value through profit or loss		**–**	267
Allowance for expected credit losses	12	**27,960**	2,103
Operating cash flows before movements in working capital		**(26,851)**	(28,486)
Decrease/(increase) in inventories		**10,823**	(80,458)
(Increase)/decrease in trade receivables		**(47,977)**	23,749
Decrease in deposits, prepayment and other receivables		**59,096**	80,805
Increase in trade payables		**264**	3,658
Decrease in accruals and other payables		**(375)**	(15,369)
Increase/(decrease) in tax payable		**63**	(112)
Net cash used in operations		**(4,957)**	(16,213)
Interest paid		**(1,658)**	(1,462)
Net cash used in operating activities		**(6,615)**	(17,675)

	Notes	**2019** **RMB'000**	2018 RMB'000
Investing activities			
Interest received		**1**	–
Purchases items of property, plant and equipment	18	**(191)**	–
Dividend income		**–**	43
Net cash (used in)/generated from investing activities		**(190)**	43
Financing activities			
Repayment of obligations under finance lease		**(6,000)**	(15,785)
Net cash used in from financing activities		**(6,000)**	(15,785)
Net decrease in cash and cash equivalents		**(12,805)**	(33,417)
Cash and cash equivalents at the beginning of the year		**6,495**	16,204
Effect of exchange rate change		**8,161**	23,708
Cash and cash equivalents at the end of the year		**1,851**	6,495

1. GENERAL INFORMATION

The Company was a public limited company incorporated in the Cayman Islands on 3 December 2012 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares are listed on The Stock Exchange of Hong Kong Limited. Its parent is Visual Wise Limited (incorporated in the British Virgin Islands). Its ultimate controlling party is Mr. Lin Zhiqiang. The Company has been registered as a non-Hong Kong company under Part 16 of the Hong Kong Companies Ordinance (Cap. 622) since 10 June 2013. Its shares were initially listed on Main Board of The Stock Exchange Hong Kong Limited.

The Company's registered office is located at Cricket Square, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 17, 7/F, Block 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its operating subsidiary in the People's Republic of China (the "PRC") are Hong Kong dollars and Renminbi ("RMB") respectively. For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency. All financial information presented in RMB has been rounded to the nearest thousand.

The Company is an investment company. The Group is principally engaged in the manufacture and sales of own-branded watches and jewelleries, including but not limited to diamond watches, tourbillion watches and luxury jewellery accessories, OEM watches and third-party watches.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, 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.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION *(Continued)*

Basis of preparation *(Continued)*

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 HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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 entirety, 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.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

3.1 New and Amendments to HKFRSs that are mandatority effective for the current year

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:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan, Amendment Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 New and Amendments to HKFRSs that aremandationly effective for the current year *(Continued)*

HKFRS 16 Leases

Transition and summary of effects arising from initial application of HKFRS 16

On 1 January 2019, the Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17, and the related interpretations. The Group applied the HKFRS 16 in accordance with the transition provisions of HKFRS 16.

Definition of lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessor

During the year ended 31 December 2019, application of HKFRS 16 by the Group as a lessor has no material impact on the Group's consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 New and Amendments to HKFRSs that aremandationly effective for the current year *(Continued)*

HKFRS 16 Leases *(Continued)*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong was determined on a portfolio basis;

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;

iv. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

v. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 New and Amendments to HKFRSs that aremandationly effective for the current year *(Continued)*

HKFRS 16 Leases *(Continued)*

As a lessee (Continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	–
Obligation under finance lease recognised as at 31 December 2018	6,000
Lease liabilities	6,000
Analysed as:	
Current	6,000
Non-current	–
	6,000

	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	–
Amounts included in property, plant and equipment under HKAS 17 – Assets previously under finance leases (note)	31,727
By class	
Plant and machinery	31,727
	31,727

Note: In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB31,727,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB6,000,000 to lease liabilities as current liabilities at 1 January 2019.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.2 New and revised HKFRSs in issue but not yet effective

Issued but not yet effective Hong Kong Financial Reporting Standard

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after a date to be determined

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised "Conceptual Framework for Financial Reporting" was issued in 2018. Its consequential amendments, the "Amendments to References to the Conceptual Framework" in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020. The directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

– the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

– potential voting rights held by the Group, other vote holders or other parties;

– rights arising from other contractual arrangements; and

– any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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 period 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.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination which represent the lowest level at which the goodwill is mentioned for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or a group of cash-generating units) 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 the 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 pro rata based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Revenue recognition and other income recognition

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition and other income recognition *(Continued)*

- The Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance complete to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Sale of goods

Revenue from manufacture and sales of own-branded watches and trading of OEM watches, third-party watches are recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. The normal credit term is 0 to 180 days upon delivery. Payment in advance is required for some contracts.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Company's or the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

Leasing (upon application of HKFRS 16)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing (upon application of HKFRS 16) *(Continued)*

As a lessee *(Continued)*

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets "property, plant and equipment,", the same line item within which the corresponding underlying assets would be presented on the consolidated statements of financial position if they were owned.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing (upon application of HKFRS 16) *(Continued)*

As a lessee *(Continued)*

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing (upon application of HKFRS 16) *(Continued)*

As a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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 such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing (prior to adoption of HKFRS 16 on 1 January 2019)

The Group as lessee

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

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

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

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

Foreign currencies

In preparing the Financial Information of each individual group entities, transactions in currencies other than that entity's foreign currency (foreign currencies) are recognised at the rate of exchange prevailing at the dates of the transactions. At the end of each 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 at 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 arising on monetary items are recognised in profit or loss during the financial year 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is nether 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 purpose of presenting these consolidated Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation 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 involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), 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.

In additional, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over a subsidiary that includes a foreign operation, 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 disposal of associates or jointly controlled entities 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange difference arising are recognised in the foreign currency translation reserve.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

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

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from the subsidiary in an independent fund managed by the PRC government.

Equity-settled share-based payment transactions

Shares/Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. For shares/share options that vest immediately at the date of grant, the fair value of the shares/share options granted is expensed immediately to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Shares/Share options granted to suppliers/consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

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 as reported in the consolidated statements of profit or loss and other comprehensive income because of items 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 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 Financial Information and the corresponding tax base 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the 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 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. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost, less accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets, other than construction in progress, less their residual values over their useful lives, using the straight-line method.

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.

The estimated useful lives for the current and comparative periods are as follows:

Building	20 years
Furniture and office equipment	3-6 years
Leasehold improvement	5 years
Plant and machinery	8-10 years
Motor vehicles	4 years

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the 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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Classification and measurement of financial assets at amortised cost

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and measurement of financial assets at amortised cost (Continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Amortised cost and interest income (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other revenue and other income" line item.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables, loan receivables, pledged bank deposit and cash and bank balances). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting period. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting period as well as the forecast of future conditions.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Definition of default *(Continued)*

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 90 days past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Financial liabilities and equity instruments

Classification as financial liabilities or equity

Financial liabilities 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 Company 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 income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or 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

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at amortised cost

Financial liabilities (including trade payables, accruals and other payables) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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 the profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties transactions

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

(i) A person or a close member of that person's family is related to the Group if that person:

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

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or of a parent of the Group.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);

(b) one entity is an associate or joint venture of the other entity for an associate or joint venture of a member of a group which the other entity is a member);

(c) both entities are joint ventures of the same third party;

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

(e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employees are also related to the Group;

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

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

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

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, 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 ongoing 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.

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Estimated impairment for property, plant and equipment

Impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amounts of property, plant and equipment amounted to RMB28,088,000, No impairment losses were recognised during the year ended 31 December 2019. Details of the property, plant and equipment are disclosed in note 18.

(b) Estimated impairment on trade and other receivables

The loss allowances for financial assets are based on assumption about risk of default and expected loss rates. The Group use judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

The increase in loss allowances for expected credit loss for trade receivables and other receivables for the year ended 31 December 2019 were approximately of RMB24,717,000 and RMB3,243,000 respectively. Details of impairment assessment under expected credit loss model of deposit and other receivables for the year ended 31 December 2019 set out in Note 6(b).

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(c) Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

(d) Income tax and deferred taxation

Determining income tax provisions involve judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(e) Impairment of inventories

The Group makes provision for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of slow-moving stock and obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories.

(f) 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 estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill as at 31 December 2019 was approximately RMB3,327,000. Details of the impairment loss calculation are set out in note 17.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(g) Valuation of share options

As explained in Note 31, share option expense is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the profit or loss and share-based payment reserve.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 **RMB'000**	2018 RMB'000
Financial assets		
Financial asset at fair value through profit or loss	**7,574**	10,828
Financial assets at amortised cost/ Loans and receivables (including cash and bank balances)		
– Trade receivables	**95,841**	72,179
– Other receivables	**73,199**	81,605
– Cash and bank balances	**1,851**	6,495
Financial liabilities		
Amortised cost		
– Trade payables	**3,922**	3,658
– Other payables	**1,743**	2,184

(b) Financial risk management objectives and policies

The directors of the Company monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest risk), credit risk and liquidity risk.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

The Group's major financial instruments include trade receivables, deposits and other receivables, cash and bank balances, financial asset at fair value through profit or loss, trade payables, and other payables. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit losses provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses. It considers available reasonable and supportive forwarding-looking information.

The Group has a concentration of credit risk in certain individual customers. At the end of each reporting period, the five largest receivables balances accounted for 45.1% as at 31 December 2019 (2018: 42.3%) of the trade receivables and the largest trade receivable was 10.7% (2018: 11.6%) of the Group's total trade receivables.

The Group seeks to minimise its risk by dealing with counterparties which have good credit history. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

Trade receivables

	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
As at 31 December 2019						
Expected credit losses rate	**1.36%**	**1.39%**	**2.04%**	**2.04%**	**29.94%**	**26.46%**
Gross carrying amount (RMB'000)	**3,172**	**4,832**	**4,518**	**3,581**	**114,776**	**130,879**
Lifetime ECLs (RMB'000)	**(43)**	**(67)**	**(92)**	**(73)**	**(34,361)**	**(34,636)**
Exchange alignment	**(1)**	**(1)**	**(1)**	**(1)**	**(398)**	**(402)**
	3,128	**4,764**	**4,425**	**3,507**	**80,017**	**95,841**

	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
As at 31 December 2018						
Expected credit losses rate	1.37%	1.36%	1.37%	1.37%	16.25%	12.08%
Gross carrying amount (RMB'000)	4,898	5,507	8,342	4,238	59,113	82,098
Lifetime ECLs (RMB'000)	(67)	(75)	(114)	(58)	(9,605)	(9,919)
	4,831	5,432	8,228	4,180	49,508	72,179

Other receivables

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Other receivables *(Continued)*

The movement of loss allowances for other receivables during the year are as follows:

	RMB'000
At 31 December 2017	
– Amounts re-measured through opening – accumulated losses	314
At 1 January 2018	314
Reversal of allowance for expected credit losses	–
At 31 December 2018	314
Allowance for expected credit losses	3,243
Exchange alignment	105
At 31 December 2019	3,662

Interest rate risk

The Group's exposure to fair value interest rate risk to fixed rate borrowings is minimal because the Group has been keeping borrowings at variable rates.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates arising from the Group's RMB denominated borrowings.

Interest rate sensitivity analysis

At 31 December 2019 and 31 December 2018, the Group has no borrowing at variable interest rate and fixed interest rate that expire the Group's cash flow interest rate risk and fair value interest rate risk.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Price Risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities listed in Hong Kong industry sector quoted in The Stock Exchange of Hong Kong Limited. The directors of the Company will monitor the risks and consider hedging the risk exposure should the need arise.

Equity price sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the end of the reporting period.

If the prices had been 15% higher/lower:

Post-tax loss for the year ended 31 December 2019 would decrease/increase by RMB949,000 (2018: increase/decrease by RMB1,490,000) as a result of change in fair value of financial assets at fair value through profit or loss.

Currency risk

The Group mainly operates in the PRC and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"), Hong Kong dollars ("HKD") and United States dollars ("USD"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Company's management do not expect the net foreign currency risk from these activities to be significant and hence, the Group and the Company do not presently hedge the foreign exchange risks. The Group and the Company periodically review liquid assets and liabilities held in currencies other than the functional currencies of the respective subsidiaries to evaluate its foreign exchange risk exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows. Management monitors the utilisation of borrowings on a regular basis.

The following tables detail the Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2019					
Non-derivative financial liabilities					
Trade payables	3,922	–	–	3,922	3,922
Other payables	1,743	–	–	1,743	1,743
	5,665	–	–	5,665	5,665

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk ***(Continued)***

	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2018					
Non-derivative financial liabilities					
Trade payables	3,658	–	–	3,658	3,658
Accruals and other payables	6,284	–	–	6,284	6,284
Obligations under finance leases	–	7,658	–	7,658	6,000
	9,942	7,658	–	17,600	15,942

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

(ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

For financial reporting purpose, fair value measurement 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 input to the fair value measurements in its entirety.

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value of financial instruments *(Continued)*

The table below gives the information about how the fair value of these financial assets and financial liabilities that are measured at fair value on a recurring basis are determined (in particular, the valuation technique(s) and inputs used). The different level are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Fair value measurements recognised in the consolidated statement of financial position

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
As at 31 December 2019				
Financial assets				
Financial assets at fair value through profit or loss	**7,574**	**–**	**–**	**7,574**
As at 31 December 2018				
Financial assets				
Financial assets at fair value through profit or loss	10,828	–	–	10,828

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value of financial instruments *(Continued)*

The fair value of listed equity securities in Hong Kong is determined based on quoted market bid price on relevant stock exchange.

Financial assets	**Fair value as at 31/12/2019**	**Fair value as at 31/12/2018**	**Fair value hierarchy**	**Basis of fair value measurement/ valuation technique(s) and key inputs**
Financial assets at fair value through profit or loss	Listed equity securities RMB7,574,000	Listed equity securities RMB10,828,000	Level 1	Quoted bid prices in an active market

There were no transfer between Level 1 and Level 2 in both years.

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

(d) Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages the capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital in both years.

The Group monitors 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 overall strategy remains unchanged in both years.

The capital structure of the Group consists of borrowings, cash and bank balances and equity attributable to owners of the Company, comprising issued share capital and reserves.

	2019 RMB'000	2018 RMB'000
Total borrowings	**–**	–
Total equity	**355,984**	467,344
Gearing ratio	**N/A**	N/A

7. OPERATING SEGMENT

Information reported internally to the chief operating decision makers for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group currently operates in one business segment in manufacturing, trading and retailing business of watches.

A single management team reports to the chief operating decision makers who comprehensively manages the entire business. Accordingly, the Group does not have separate reportable segments.

Revenue from major products

	2019	2018
	RMB'000	RMB'000
Branded watches	**72,431**	85,691
OEM watches	**4,547**	5,380
Third-party watches	**14,513**	15,877
	91,491	106,948

Geographical information

Detailed below is information about the Group's revenue from external customers analysed by their geographical location: Group's operations are mainly located in HK and the PRC.

	2019	2018
	RMB'000	RMB'000
Asia (excluding the PRC)	**52,681**	39,255
The PRC	**34,214**	62,320
Europe	**4,596**	5,373
	91,491	106,948

The Group's non-current assets (excluding goodwill) are mainly located in the PRC.

Information about major customers

No individual customer contributed over 10% of total revenue of the Group during the years ended 31 December 2019 and 2018.

8. REVENUE

	2019 RMB'000	2018 RMB'000
Branded watches	**72,431**	85,691
OEM watches	**4,547**	5,380
Third-party watches	**14,513**	15,877
Total revenue recognised at a point in time	**91,491**	106,948

All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contract is not disclosed.

9. OTHER INCOME AND GAIN

	2019 RMB'000	2018 RMB'000
Bank interest income	**1**	–
Dividend income	**–**	43
	1	43

10. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Finance charges on obligations under finance lease	**1,658**	1,462

11. TAXATION

	2019 RMB'000	2018 RMB'000
Hong Kong profits tax	**35**	89

11. TAXATION *(Continued)*

Hong Kong

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tires profits tax rates regime, the first HK$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2,000,000 will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The PRC

The PRC Enterprise Income Tax ("PRC EIT") is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Under the PRC Enterprise Income Tax Law (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of a PRC subsidiary is 25% from 1 January 2008 onwards.

The taxation (credit)/charge for the year can be reconciled to the loss before taxation per consolidated statements of profit or loss and other comprehensive income as follows:

	2019		2018	
	RMB'000	**%**	RMB'000	%
Loss before taxation	**(127,017)**		(106,728)	
Tax at the application income tax rate	**(31,754)**	**(25.0)**	(26,682)	(25.0)
Effect of different tax rate in other countries	**10,796**	**8.5**	9,072	8.5
Tax effect of expenses not deductible for tax purpose	**20,993**	**16.5**	17,699	16.6
Taxation for the year	**35**	**0.02**	89	0.1

12. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2019 RMB'000	2018 RMB'000
Other staff costs:		
Salaries and other benefits	7,201	9,699
Retirement benefit schemes contribution	827	2,020
Total employee expenses	8,028	11,719
Advertising expenses	18,484	22,278
Auditors' remuneration	1,000	1,200
Cost of inventories recognised as cost of sales	77,192	87,871
Depreciation of property, plant and equipment	4,418	4,350
Allowance for expected credit losses, net	27,960	2,103
Share-based payment expense	6,336	–

13. DIRECTORS' EMOLUMENTS

Pursuant to the Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2019 RMB'000	2018 RMB'000
Directors' fees	835	865
Retirement benefit schemes contributions	11	11
	846	876

13. DIRECTORS' EMOLUMENTS *(Continued)*

Details for the emoluments of each directors of the Company during the year ended are as follows:

	Year ended 31 December 2019					
	Directors' fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Share based payment RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive director:						
Mr. See Ching Chuen	**200**	**–**	**–**	**–**	**11**	**211**
Mr. Yang Xi	**211**	**–**	**–**	**–**	**–**	**211**
Mr. Zou Weikang	**106**	**–**	**–**	**–**	**–**	**106**
Independent non-executive director:						
Mr. Yu Chon Man	**106**	**–**	**–**	**–**	**–**	**106**
Mr. Zhong Weili	**106**	**–**	**–**	**–**	**–**	**106**
Ms. Duan Baili	**106**	**–**	**–**	**–**	**–**	**106**
	835	**–**	**–**	**–**	**11**	**846**

	Year ended 31 December 2018					
	Directors' fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Share based payment RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive director:						
Mr. See Ching Chuen	200	–	–	–	11	211
Mr. Yang Xi	211	–	–	–	–	211
Mr. Zou Weikang	105	–	–	–	–	105
Independent non-executive director:						
Mr. Yu Chon Man	105	–	–	–	–	105
Mr. Zhong Weili	105	–	–	–	–	105
Ms. Duan Baili	139	–	–	–	–	139
	865	–	–	–	11	876

For the years ended 31 December 2019 and 2018, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group on as compensation for loss of office. There were no arrangement under which a director waived on agreed to waive any emoluments during the year ended.

14. EMPLOYEES' EMOLUMENTS

Five highest paid employees

Of the five individuals with the highest emoluments in the Group for the year, two (2018: One) were directors of the Company whose emoluments are included in the disclosure in note 13 above. The emoluments of the remaining three (2018: four) individuals were as follows:

	2019	2018
	RMB'000	RMB'000
Director	**422**	421
Non-director	**1,047**	1,012
	1,469	1,433

Details of the remuneration of the above non-director, highest paid employees during the year are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefit in kind	**993**	957
Retirement benefit schemes contributions	**54**	55
	1,047	1,012

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

	2019	2018
Nil to HK$1,000,000	**3**	4

Senior management of the Group

The number of the senior management of the Group are within the following band:

	2019	2018
Nil to HK$1,000,000	**5**	5

During the year, no emoluments were paid by the Group to the non-director, highest paid employees or senior management as an inducement to join or upon joining the Group or as compensation for loss of office. None of the non-director, highest paid employees and senior management waived or agreed to waive any emoluments during the year.

15. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

16. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2019	2018
	RMB'000	RMB'000
Loss		
Loss for the purpose of basic and diluted loss per share, loss for the year attributable to owner of the Company	**(127,052)**	(106,817)
	'000	'000
Number of shares		
Weight average number of ordinary shares for the purpose of basic and diluted loss per share	**345,600**	345,600

(a) The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company of RMB127,052,000 (2018: RMB106,817,000) and the weighted average of 345,600,000 ordinary shares (2018: (Restated) 345,600,000) in issue during the year as adjusted to reflect the effect of the effect of the share consolidation. Comparative figure have also been adjusted on the assumption that the share consolidation had been effective in the prior period.

(b) Diluted loss per share for the years ended 31 December 2019 and 2018 were the same as basic loss per share as it is assumed that there is no potential dilutive ordinary shares in existence since the exercise of share options was anti-dilutive.

17. GOODWILL

	2019 RMB'000	2018 RMB'000
Cost:		
At 1 January	**12,246**	11,917
Exchange alignment	**394**	329
At 31 December	**12,640**	12,246
Accumulated impairment losses:		
At 1 January	**9,146**	–
Impairment for the year	**–**	9,146
Exchange alignment	**167**	–
At 31 December	**9,313**	9,146
Carrying amount:		
At 31 December	**3,327**	3,100

Particular of impairment testing on goodwill are disclosed below:

Goodwill has been allocated for impairment testing purposes to the following cash-generating units ("CGU"):

Trading watch business

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

	2019 RMB'000	2018 RMB'000
Trading watch business	**12,640**	12,246

Disclose circumstance of impairment

In view of the continuous unfavorable operating result from the trading watch business, the directors assessed the recoverable amount of CGU at year ended 31 December 2019 and 2018.

For the year ended 31 December 2019, the recoverable amount of this cash generating units has been determined based on a value in use calculation which uses cash flow projection based on financial budgets approved by the directors and valued by the professional valuer covering a five-year period, and pre-tax discount rate of 17.48% per annum (2018: 16.22%). Cash flows beyond that five-year period have been extrapolated using a steady 3% growth rate (2018: 3.0%). This growth rate does not exceed the long-term average growth rate for the market.

The key assumptions used in the value-in-use calculations are as follows:

Budgeted market share	Average market share in the period immediately before the budget period. The values assigned to the assumption reflect post experience
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period which reflects the past experience

18. PROPERTY, PLANT AND EQUIPMENT

	Furniture, and office equipment RMB'000	Plant and machinery RMB'000	Total RMB'000
Cost			
As at 1 January 2018	–	41,720	41,720
Exchange realignment	–	243	243
As at 31 December 2018 and 1 January 2019	–	41,963	41,963
Additions	191	–	191
Exchange alignment	11	1,543	1,554
As at 31 December 2019	202	43,506	43,708
Accumulated depreciation and impairment losses			
As at 1 January 2018	–	4,133	4,133
Charge for the year	–	4,350	4,350
Exchange alignment	–	1,753	1,753
As at 31 December 2018 and 1 January 2019	–	10,236	10,236
Charge for the year	31	4,387	4,418
Exchange alignment	4	962	966
As at 31 December 2019	35	15,585	15,620
Net book values			
As at 31 December 2019	167	27,921	28,088
As at 31 December 2018	–	31,727	31,727

As at 31 December 2019, the carrying amount of the Groups plant and machinery of approximately RMBNil (2018: RMB31,727,000) of asset held under finance lease.

19. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**19,695**	35,824
Work in progress	**21**	38
Finished goods	**62,362**	113,434
	82,078	149,296

During the year ended 31 December 2019, there was a significant decrease in the net realisable value of finished good due to long-aged inventories. As a result, provision of inventories of approximately RMB56,395,000 (2018: RMB51,846,000) has been recognised.

20. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**130,879**	82,098
Less: Allowance for expected credit losses	**(35,038)**	(9,919)
	95,841	72,179

The Group generally allows credit period of 0 to 180 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
0 to 30 days	**3,128**	4,831
31 to 60 days	**4,764**	5,432
61 to 90 days	**4,425**	8,228
91 to 180 days	**3,507**	4,180
Over 180 days	**80,017**	49,508
	95,841	72,179

20. TRADE RECEIVABLES *(Continued)*

Movement in lifetime ECLs that has been recognised for trade receivables in accordance with the simplified approach set out in HKFRS 9 for the year ended 31 December 2019.

	RMB'000
Balance as at 31 December 2017 under HKAS 39	–
Adjustment upon application of HKFRS 9	7,816
Adjusted balance as at 1 January 2018	7,816
Allowance for expected credit losses	2,103
Balance as at 31 December 2018	9,919
Allowance for expected credit losses	24,717
Exchange alignment	402
Balance as at 31 December 2019	35,038

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Deposits and prepayments (Note i)	**88,762**	128,515
Other receivables (Note ii)	**62,199**	81,605
Less: Allowance for expected credit losses	**(3,662)**	(314)
	147,299	209,806

Note: (i) Included in deposits and prepayments, (a) approximately RMB65,777,000 (2018: RMB100,812,000) represented the deposit and prepayments for purchase of inventories to independent third parties; (b) approximately RMB22,985,000 (2018: RMB27,703,000) represented the prepayment for advertising; (ii) included in other receivables approximately RMB45,189,000 (2018: RMB61,207,000) represented the consideration receivables of disposal of subsidiaries during the year 2017.

22. CASH AND BANK BALANCES

	2019 RMB'000	2018 RMB'000
Cash at bank and on hand	**1,469**	6,158
Cash at other financial institutions	**382**	337
Cash and bank balances	**1,851**	6,495

As at 31 December 2019, cash and bank balances carry interest at prevailing market saving rates from 0.01% to 0.02% (2018: 0.01% to 0.02%) per annum.

23. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Listed equity securities in Hong Kong	**7,574**	10,828

The fair value of listed securities in Hong Kong is determined based on quoted market bid price available on the relevant stock exchange.

24. TRADE PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**3,922**	3,658

The average credit period on purchase of goods is 0 to 60 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
0-30 days	**3,922**	3,658
	3,922	3,658

25. ACCRUALS AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Accruals	**4,166**	4,100
Other payables	**1,743**	2,184
	5,909	6,284

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment		Present value of minimum lease payment	
	2019 **RMB'000**	2018 RMB'000	**2019** **RMB'000**	2018 RMB'000
Amounts payable under finance leases:				
Within one year	**–**	7,658	**–**	6,000
More than one year and not more than five years	**–**	–	**–**	–
In the fifth year	**–**	–	**–**	–
	–	7,658	**–**	6,000
Less: Future finance charges	**–**	(1,658)	**–**	–
Present value of lease obligations	**–**	6,000	**–**	6,000
Less: Amount due within one year shown under current liabilities			**–**	(6,000)
Amount due after one year			**–**	–

	2019 RMB'000	2018 RMB'000
Analysis for reporting purpose as:		
Current liabilities	**–**	6,000
Non-current liabilities	**–**	–
	–	6,000

26. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

The Group leased certain plant and equipment under finance lease. As at 31 December 2019, the lease terms ranged from 3-4 years. (31 December 2018: 3-4 years).

The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

Finance leases obligations are denominated in Hong Kong dollars.

27. DEFERRED TAXATION

No deferred tax asset have been recognised in respect of such losses due to the unpredictability of future profit streams.

At 31 December 2019, the Group has unused tax losses of approximately RMB12,949,000 (2018: RMB13,587,000) available for offset against the assessable profit for each particular year.

28. SHARE CAPITAL

	Number of Shares	**Nominal value**
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	13,000,000	130,000

	Number of shares	**Nominal Value of ordinary share**	
	'000	HK$'000	RMB'000
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	**3,456,000**	**34,560**	**29,181**

29. DETAILS OF THE COMPANY

(a) Statement of Financial Position of the Company:

	Notes	2019 RMB'000	2018 RMB'000
Assets			
Current assets			
Deposit, prepayment and other receivables		**23,545**	31,668
Amount due from subsidiaries		**171,634**	192,285
Cash and bank balance		**78**	3,591
		195,257	227,544
Liabilities			
Current liabilities			
Accruals		**6,147**	4,206
		6,147	4,206
Net current assets		**189,110**	223,338
Total assets less current liabilities		**189,110**	223,338
Net assets		**189,110**	223,338
Equity			
Share capital	28	**29,181**	29,181
Reserves	29(b)	**159,929**	194,157
Total equity		**189,110**	223,338

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

Yang Xi	**See Ching Chuen**
Executive Director	*Executive Director*

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

29. DETAILS OF THE COMPANY *(Continued)*

(b) The reserves of the Company

	Share premium RMB'000	Share option reserve RMB'000	Foreign currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	471,765	15,275	(13,284)	(113,220)	360,536
Loss for the year	–	–	–	(193,358)	(193,358)
Other comprehensive loss for the year	–	–	26,979	–	26,979
Total comprehensive loss for the year	–	–	26,979	(193,358)	(166,379)
Release upon lapsed share options	–	(5,500)	–	5,500	–
At 31 December 2018 and 1 January 2019	471,765	9,775	13,695	(301,078)	194,157
Loss for the year	–	–	–	(48,404)	(48,404)
Other comprehensive income for the year	–	–	7,840	–	7,840
Total comprehensive income for the year	–	–	7,840	(48,404)	(40,564)
Share-based payment expenses	–	6,336	–	–	6,336
As at 31 December 2019	471,765	16,111	21,535	(349,482)	159,929

30. RETIREMENT BENEFIT PLANS

The employees in the PRC are members of state-managed retirement benefit scheme operated by the PRC government. The Company's subsidiary operating in the PRC is required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contribution under the scheme.

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is a registered scheme under the MPF 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 employers and their employees are each required to make contributions to the MPF Scheme at a rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees and capped at HK$1,500 per month (HK$1,500 since 1 June 2014). No forfeited contribution is available to reduce the contribution payable in the future years.

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

31. SHARE-BASED PAYMENT SCHEMES

On 30 January 2015, the share option scheme (the"Share Option Scheme") was adopted. The purposes of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors of the Company consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors of the Company and other selected participants for their contributions to the Group.

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares capital on 30 January 2015 (such 10% limit representing 80,000,000 shares).

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being, unless the approval of the shareholders is obtained.

31. SHARE-BASED PAYMENT SCHEMES *(Continued)*

Any grant of options under the Share Option Scheme to a Director, Chief Executive or substantial shareholder of the Company must be approved by the independent non-executive Directors. Where any granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with value in excess of HK$5,000,000 must be approved by the shareholders of the Company in general meeting.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option. The subscription price per share under the Share Option Scheme shall be determined at the discretion of the Directors of the Company and will not less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The details of the movements in the number of share options have been grant during the year were as follows:

Share option scheme

	Date of grant	Exercised price	Exercised period	At 1 January 2018	Granted during the period	Exercised during the period	Lapsed/ forfeited during the period	At 31 December 2018	Granted during the period	Exercised during the period	Lapsed/ forfeited during the period	At 31 December 2019	Outstanding as at 31 December 2019 after share consolidation which completed 31 March 2020
		HK$		'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Other employees and consultants	16 June 2015	0.726	16 December 2015 to 15 June 2025	4,100	–	–	–	4,100	–	–	–	4,100	410
	16 June 2015	0.726	16 June 2015 to 15 June 2025	31,970	–	–	–	31,970	–	–	–	31,970	3,197
	9 November 2017	0.05	9 November 2017 to 8 November 2018	345,600	–	–	(345,600)	–	–	–	–	–	–
	11 April 2019	0.041	11 April 2019 to 10 April 2029	–	–	–	–	–	345,600	–	–	345,600	34,560
Total				381,670	–	–	(345,600)	36,070	–	–	–	381,670	38,167
Weighted average exercise price				HK$0.114				HK$0.726				HK$0.106	HK$0.106

31. SHARE-BASED PAYMENT SCHEMES *(Continued)*

During the year ended 31 December 2019, total 345,600,000 share options were granted.

According to Black-Scholes Options Model, the values and adjusted values of option granted are as follow:

Date of grant	11 April 2019	9 November 2017	16 June 2015
Grant date share price	HK$0.040	HK$0.05	HK$0.68
Exercise price	HK$0.041	HK$0.05	HK$0.726
Expected volatility	47%	98%	79%
Option life	10 years	1 year	10 years
Risk-free interest rate	1.619%	0.96%	1.271%
Expiration date	10 April 2029	8 November 2018	15 June 2015

32. RELATED PARTY TRANSACTIONS AND BALANCES

Save as disclosed in elsewhere in the consolidated financial statements, the Group had also entered into the following related party material transactions during the year:

Compensation of key management personnel

The directors and chief executive officers of the Company are identified as key management members of the Group and their compensation for the year ended is set out in Note 13.

33. PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries are set out below:

Name of subsidiary	Place of Incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of Nominal value of issued share capitally paid up capital held by the Company				Principal activities
			Directly		Indirectly		
			2019	2018	**2019**	2018	
Time2U (HK)	Hong Kong	HK$1.00	**–**	–	**100%**	100%	Investment holding
Touch Moment Group Limited	The British Virgin Islands ("BVI")	US$1.00	**100%**	100%	**–**	–	Investment holding
Soho	Hong Kong	HK$10,000	**–**	–	**100%**	100%	Manufacturing and trading of watches

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or 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.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flow were, or future cash flows will be classified in the Group's consolidated statement of cash flows from financing activities.

	Obligations under finance lease RMB'000	Total RMB'000
At 1 January 2018	21,785	21,785
Repayment of obligation under finance lease	(15,785)	(15,785)
At 31 December 2018, 1 January 2019	6,000	6,000
Repayment of obligation under finance lease	(6,000)	(6,000)
At 31 December 2019	–	–

35. EVENTS AFTER THE REPORTING PERIOD

(a) On 31 March 2020, the Company completed the consolidation of shares in the issued shares of the Company whereby every ten issued and unissued ordinary shares of HK$0.01 each are consolidated into one consolidated ordinary share of HK$0.1 each (the "Share Consolidation").

(b) Since January 2020, the outbreak on Novel Coronavirus ("COVID-19") has impacted the global business environment. Up to the date of these financial statements, COVID-19 has significant decrease in the Group's revenue. Pending the development and spread of COVID-19 subsequent to the date of the financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

36. NON-CASH TRANSACTION

(i) During the year ended 31 December 2019, the equity-settled share-based payment were approximately RMB6,336,000.

37. COMPARATIVE FINANCIAL INFORMATION

Certain comparative figures have been restated to conform with current year's presentation.

38. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 March 2020.