Time2U

2018 Annual Report

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)

CONTENTS

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.hklistco.com/1327

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				
	2018 RMB'000	2017 RMB'000	2016 RMB'000 (Restated)	2015 RMB'000	2014 RMB'000
Continuing operations					
Revenue	**106,948**	115,805	89,627	691,349	722,722
Cost of sales	**(87,871)**	(75,151)	(51,246)	(490,614)	(482,077)
Gross profit	**19,077**	40,654	38,381	200,735	240,645
Other income and gain	**43**	1	77	4,739	2,064
Change on fair value of financial assets at fair value through profit or loss	**(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	**(51,846)**	–	–	–	–
Selling and distribution expenses	**(31,329)**	(37,248)	(35,140)	(50,277)	(37,211)
Administrative expenses	**(22,687)**	(20,059)	(14,014)	(76,352)	(36,970)
Impairment of goodwill	**(9,146)**	–	–	–	–
Share of loss on an associate	**–**	–	–	(250)	(1,003)
Finance costs	**(1,462)**	(1,806)	(5)	(2,213)	(6,536)
(Loss)/profit before taxation	**(106,728)**	(96,983)	(22,927)	129,173	160,989
Taxation	**(89)**	7,086	1,997	(40,344)	(43,207)
(Loss)/profit for the year from continuing operations	**(106,817)**	(89,897)	(20,930)	88,829	117,782
Discontinued operation					
Loss for the year from discontinued operation	**–**	(27,178)	(318,271)	–	–
(Loss)/profit for the year	**(106,817)**	(117,075)	(339,201)	88,829	117,782
(Loss)/profit for the year attributable to:					
Owners of the Company	**(106,817)**	(113,184)	(322,514)	85,901	115,165
Non-controlling interests	**–**	(3,891)	(16,687)	2,928	2,617
	(106,817)	(117,075)	(339,201)	88,829	117,782

ASSETS AND LIABILITIES

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	**483,431**	597,097	787,948	850,292	532,620
Total liabilities	**(16,087)**	(43,606)	(90,209)	(134,671)	(107,571)
Total equity	**467,344**	553,491	697,739	715,621	425,049

DIRECTOR'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Time2U International Holding 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 2017 ("FY 2017").

BUSINESS REVIEW

The Group is a domestic watch brand-owner of economical quartz analogue watches and an OEM manufacturer of quartz analogue watches in the PRC. The Group has three principal lines of business operations, namely the design, production and assembly of watches for our OEM customers, the design, manufacture and sale of watches under the brand namely Time2U, Jonquet and sub-brand namely Color and the design and sales of new branded watches namely Extreme and prestige and high-end watches in Hong Kong.

In 2018, 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.

The first half of the year was marked by encouraging growth for the overall consumption market in general. However, due to the prolonged Sino-US trade dispute, the sales in the second half of the year 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. According to the statistics from The Census and Statistics Department, retail sales of the jewellery, watches and clocks category in Hong Kong has become even weaker since November 2018 when comparing with 2017.

OUTLOOK AND FUTURE PROSPECTS

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 and also the cooling economy in the PRC, the Group expects 2019 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, 28 March 2019

FINANCIAL REVIEW

Revenue

Our revenue decreased by approximately RMB8.9 million or approximately 7.7% from approximately RMB115.8 million for the year ended 31 December 2017 to approximately RMB106.9 million for the year ended 31 December 2018. The decrease in revenue was mainly attributable to (i) decrease of sales demand of OEM watches and third party watches notwithstanding it had partially offset by the increase in sales demand of branded watches; and (ii) the decrease in average selling price for the year ended 31 December 2018.

Cost of sales

Our cost of sales increased by approximately RMB12.7 million or approximately 16.9% from approximately RMB75.2 million for the year ended 31 December 2017 to approximately RMB87.9 million for the year ended 31 December 2018. The increase was mainly due to the increase in sales demand of branded watches.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB21.6 million or approximately 53.1% from approximately RMB40.7 million for the year ended 31 December 2017 to approximately RMB19.1 million for the year ended 31 December 2018 which was in line with the decrease in the average selling price for the year ended 31 December 2018. Our overall gross profit margin decreased from approximately 35.1% for the year ended 31 December 2017 to approximately 17.8% for the year ended 31 December 2018. The decrease was mainly attributable to the decrease in average selling price during the year ended 31 December 2018.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately RMB5.9 million or approximately 15.9% from approximately RMB37.2 million for the year ended 31 December 2017 to approximately RMB31.3 million for the year ended 31 December 2018. The decrease was in line with the decrease of revenue.

Administrative expenses

Our administrative expenses increased by approximately RMB2.6 million or approximately 13.1% from approximately RMB20.1 million for the year ended 31 December 2017 to approximately RMB22.7 million for the year ended 31 December 2018.

Loss before taxation

As a result of the foregoing, our loss before taxation remained stable which increased approximately RMB9.7 million to approximately RMB106.7 million for the year ended 31 December 2018 as against a loss before taxation of approximately RMB97.0 million for the year ended 31 December 2017.

Taxation

Our income tax credit was RMB7.1 million for the year ended 31 December 2017 and our income tax expense was approximately RMB89,000 for the year ended 31 December 2018. The change was primarily attributable to the reversal of deferred taxation which recognised in 2017.

Loss for the year

As a result of the foregoing, we recorded a loss for the year of approximately RMB106.8 million for the year ended 31 December 2018 as against a loss for the year of approximately RMB117.1 million for the year ended 31 December 2017.

FINANCIAL POSITION

The Group funded its liquidity and capital requirements primarily through cash inflows from operating activities, placing of shares, rights issue of shares and bank borrowings.

As at 31 December 2018, the Group's total cash and bank balances were approximately RMB6.5 million (31 December 2017: approximately RMB16.2 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 16.5 times as at 31 December 2017 to 27.9 times as at 31 December 2018. The gearing ratio (defined as total interest-bearing borrowings divided by shareholders' equity) of the Group decreased from approximately 3.9% as at 31 December 2017 to approximately 1.3% as at 31 December 2018.

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 2018.

SIGNIFICANT INVESTMENTS IN LISTED SECURITIES

Name of investee	As at 1 January 2018 RMB'000	Loss on disposal RMB'000	Fair value loss RMB'000	As at 31 December 2018 RMB'000	Percentage to the Group's audited total assets as at 31 December 2018 %	Number of shares held by the Group as at 1 January 2018	Percentage of shareholding held by the Group as at 1 January 2018 %	Number of shares held by the Group as at 31 December 2018	Percentage of shareholding held by the Group as at 31 December 2018 %
Significant investments									
China Automotive Interior Decoration Holdings Limited ("China Automotive") (stock code: 48.HK) (note (a))	8,170	–	(4,099)	4,382	0.91%	81,776,000	4.11%	81,776,000	4.11%
Hao Wen Holdings Limited ("Hao Wen") (stock code: 8019.HK) (note (b))	5,411	–	(2,867)	2,745	0.57%	62,500,000	0.30%	62,500,000	0.30%
Sub-total	13,581	–	(6,966)	7,127	1.48%				
Other listed securities	8,482	(267)	(2,145)	3,701	0.77%				
Total	22,063	(267)	(9,111)	10,828	2.25%				

Notes:

(a) 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 annual result announcement for the year ended 31 December 2018, revenue and loss of China Automotive was approximately RMB194,527,000 and RMB64,925,000 respectively.

(b) Hao Wen is principally engaged in money lending business, processing and trading of electronic parts. Based on Hao Wen's annual result announcement for the year ended 31 December 2018, revenue and loss of Hao Wen was approximately RMB74,676,000 and RMB9,755,000 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 2018, 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 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had a total of 179 (2017: 247) employees. The total remuneration costs incurred by the Group for the financial year 2018 were approximately RMB11.7 million (2017: approximately RMB18.3 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 2018, none of the assets of the Group has been pledged to secure any banking facilities granted to the Group (2017: 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 2018 and 2017, 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 2018 and 2017.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2018 and 2017.

FINAL DIVIDENDS

The Board did not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

EVENT AFTER THE END OF THE REPORTING PERIOD

The Group did not have any event after the end of the reporting period.

DETAILS OF AUDIT QUALIFICATION AND COMPANY'S RESPONSE

Details of the modification and their actual or potential impact on the Group's financial position

The audit modification resulted from the possible effects on the comparability of the current year's figures and the corresponding figure due to the modification in relation to annual report for the year ended 31 December 2017. The audit modification do not qualify the results for the year ended 31 December 2018 and the closing balance as at 31 December 2018 and 2017.

The audit modifications resulted from the inaccessibility of the accounting records and the management of Speedy Glory Limited and its subsidiaries (the "Disposal Group") which disposed on 30 November 2017 (the "Disposal Date"). Other than the management accounts of the Disposal Group as at the Disposal Date and certain breakdown, the management of the Disposal Group was unwilling to serve and provide sufficient times and documents to the Company's auditors to perform audit on the Disposal Group. There was no impact on the Group's financial position as at 31 December 2018 and 2017 as the financial position of the Group only reflects assets and liabilities of the remaining group business which auditors do not have any modifications.

Management's position and basis on major judgmental areas

The Board and the audit committee consider that (i) the results and cash flows of the Disposal Group for the period from 1 January 2017 to the Disposal Date; (ii) the carrying amounts of the assets and liabilities of the Disposal Group as at the Disposal Date; and (iii) the gain on disposal of the Disposal Group during the year ended 31 December 2017 are fairly stated as the management accounts of the Disposal Group as at the Disposal Date provided by Ms. Guo, the purchaser of the Disposal Group, is in line with the projection of the Disposal Group up to the Disposal Date. Besides, the Company can contact with Ms. Guo whenever before or after the completion of the disposal and noted that there is no material changes on the business of the Disposal Group up to the Disposal Date. Nevertheless, as all the accounting records and documents of the Disposal Group belong to Ms. Guo after the disposal and Ms. Guo is unwilling to serve and provide sufficient times and documents to the Company's auditors, the auditors consider that they did not obtain reasonable assurance. Therefore, the Company can only accept the audit qualification.

Audit committee's view towards the qualification

Audit committee has reviewed and agreed with the management's position concerning the audit qualification. The audit committee has also discussed with the Company's auditors including the basis of the qualified opinion, the difficulties on the accessibility of the accounting records and management of the Disposal Group by the auditors, the quantities of accounting records to be accessed by the auditors and the impact of the qualified opinion to the Group.

The Company has made continuous effort to prepare and assist with the auditors to perform their audit work. The Company has continuously asked Ms. Guo, the purchaser of the Disposal Group, to assist the Company's auditors to carry out audit procedures and she agreed orally in several times. Although Ms. Guo provided certain accounting records to the auditors, the auditors consider that the quantities of accounting records and information was not sufficient enough to obtain a reasonable assurance.

Proposed plans to address the qualification

The Board would like to emphasize that the financial position of the Group as at 31 December 2018 and 2017 only reflect the assets and liabilities of the remaining group business and no audit modifications was made by the auditors. The Company also confirmed with auditors that they did not qualify figures in relation to year ended 31 December 2018 and the closing balance as at 31 December 2017. As such, they will not issue any modified opinion on the figures in relation to the year ended 31 December 2018 in the annual report for the year ending 31 December 2019.

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 2018.

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 34 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 2018.

The Group's revenue for the year is principally attributable to manufacturing, trading and retailing of watches. 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 2018 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 pages 35 and 36 of this annual report.

BUSINESS REVIEW

During the year of 2018, the Group's net loss was amounted to approximately RMB106.8 million, as against net loss of approximately RMB117.1 million for the corresponding year ended 31 December 2017. 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 19 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 29 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 39 of this annual report and in Note 30 to the consolidated financial statements, respectively. The Company's reserves available for distribution to Shareholders are set out in Note 30 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 7.1% 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.

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. See Ching Chuen and Mr. Yu Chon Man, 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 18 of this annual report.

DIRECTORS' SERVICE CONTRACTS

All executive Directors have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the Articles of Association.

Mr. Zhong Weili, one of the independent non-executive Director has signed a letter of appointment with the Company for a term of one year with effect from the date of appointment unless terminated by not less than one month's notice in writing served by either the independent non-executive Director or the Company.

Mr. Yu Chon Man, one of the independent non-executive Director has entered into a service contract with the Company for a term of three year with effect from the Listing Date unless terminated by not less than one month's notice in writing served by either the independent non-executive Director or the Company.

Save for their remuneration, none of the independent non-executive Directors is expected to receive any other emoluments for holding their office as an independent non-executive Director.

Apart from the foregoing, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract 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 14 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 36,070,000 shares.

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

	Date of grant	Exercised price	Exercised period	Outstanding at 1 January 2018 '000	Granted during the year '000	Exercised during the year '000	Lapsed/ Forfeited during the year '000	Outstanding at 31 December 2018 '000
Employees and consultants	16 June 2015	HK$0.726	16 December 2015 to 15 June 2025	4,100	–	–	–	4,100
	16 June 2015	HK$0.726	16 June 2015 to 15 June 2025	31,970	–	–	–	31,970
	9 November 2017	HK$0.05	9 November 2017 to 8 November 2018	345,600	–	–	(345,600)	–
Total				381,670	–	–	(345,600)	36,070

During the year ended 31 December 2018, 345,600,000 share options had been lapsed.

Particulars of the Share Option Scheme are set out in Note 32 to the consolidated financial statements.

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

As at 31 December 2018, 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 the date of this report, the following persons had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in issued ordinary shares of the Company

	Number of issued ordinary shares/underlying shares of the Company				
Name of Shareholder	Personal interests	Family interests	Corporate interests	Total	Percentage of the issued share capital of the Company
Mr. Lin Zhiqiang ("Mr. Lin")					
– Ordinary shares in issue	–	–	354,367,020 (Note b)	354,367,020	
– Unlisted share options	800,000	800,000 (Note a)	–	1,600,000	
	800,000	800,000	354,367,020	355,967,020	10.30%
Ms. Yan Xiaotong ("Ms. Yan")					
– Ordinary shares in issue	–	–	354,367,020 (Note b)	354,367,020	
– Unlisted share options	800,000	800,000 (Note c)	–	1,600,000	
	800,000	800,000	354,367,020	355,967,020	10.30%

Notes:

a. The family interests of 800,000 share options represent the interest of the wife of Mr. Lin.

b. These shares are hold by Visual Wise Limited ("Visual Wise"), which is owned as to 62% by Mr. Lin, an executive Director, chief executive officer, chairman in the last 24 months of the Company, and 38% by Ms. Yan, an executive Director in the last 24 months of the Company. Ms. Yan is the spouse of Mr. Lin and they are deemed to have interest in the Shares in which his/her spouse is interested in.

c. The family interests of 800,000 share options represent the interest of the husband of Ms. Yan.

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

Save for the letters of appointment entered with respective Directors and disclosed under the section headed "Continuing Connected Transactions" above, 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 2018.

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 2018.

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 2018.

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 2018.

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 2018, 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, 28 March 2019

BIOGRAPHIES OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. See Ching Chuen（施清泉先生）, aged 57, 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 29, 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 27, 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 41, 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 29, 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 46, 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 2018 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 11 June 2018. For deviations from code provision A.6.7 of the Corporate Governance Code, the Company Secretary had reminded the relevant independent non-executive Director as well as the current independent non-executive Directors 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 2018 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	4/4
Mr. Yang Xi	3/4
Mr. Zou Weikang	3/4
Independent Non-Executive Directors	
Mr. Yu Chon Man	4/4
Ms. Duan Baili	4/4
Mr. Zhong Weili	3/4

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 2018.

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 18 of this annual report.

AUDIT COMMITTEE

The Company established an audit committee on 19 December 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code.

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 2018 have been reviewed by the Audit Committee.

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

During the financial year of 2018 under review, 2 audit 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
Ms. Duan Baili	2/2
Mr. Zhong Weili	2/2

During the committee meetings held in the financial year of 2018, the summary of work of Audit Committee as below:

– Reviewing the financial reports and results announcement for the year ended 31 December 2017 and for the six months ended 30 June 2018

– 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 2018 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	1/2
Ms. Duan Baili	2/2
Mr. Zhong Weili	1/2

During the committee meetings held in the financial year of 2018, 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 2018 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	1/2

During the committee meetings held in the financial year of 2018, 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 RMB1.1 million and RMB0.1 million 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 2018, 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 2018.

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@time2uhk.com

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 2018.

HLB 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
TIME2U INTERNATIONAL HOLDING LIMITED
(Incorporated in Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Time2U International Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 106, which comprise the consolidated statement of financial position as at 31 December 2018, 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, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by 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 QUALIFIED OPINION

Corresponding figures

As disclosed in note 12 to the consolidated financial statements, the Group had disposed of the entire issued share capital of Speedy Glory Limited (the "Disposal") and the Group ceased its control of Speedy Glory Limited and its subsidiaries (the "Disposal Group") upon completion of the Disposal on 30 November 2017 (the "Disposal Date"). The results of the Disposal Group up to the Disposal Date, details of which are set out in note 12 to the consolidated financial statements, and the gain on disposal of the Disposal Group of approximately RMB69,870,000 are presented as loss from discontinued operation in the Group's consolidated statement of profit or loss and other comprehensive income.

As explained in our auditors' report on the consolidated financial statements of the Group for the year ended 31 December 2017, we were not allowed access to the management, accounting records and auditors of Disposal Group, including the Disposal Group's auditors' audit documentation. As a result, we were unable to carry out audit procedures that we considered necessary to satisfy ourselves as to the nature, completeness, accuracy, existence and valuation of the results, cash flows and other transactions undertaken by the Disposal Group during the period from 1 January 2017 to the completion of the Disposal on Disposal Date as well as the assets and liabilities of the Disposal Group as at the Disposal Date. Details of the Disposal are set out in note 12 to the consolidated financial statements. Consequently, we were unable to determine whether any adjustments were necessary in respect of (i) the results and cash flows of the Disposal Group for the period from 1 January 2017 to the Disposal Date which were included in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2017; (ii) the carrying amounts of the assets and liabilities of the Disposal Group as at the Disposal Date as disclosed in note 12 to the consolidated financial statements and (iii) the gain on disposal of the Disposal Group which was calculated based on the carrying amounts of the assets and liabilities of the Disposal Group as at the Disposal Date. Our audit opinion on the consolidated financial statements for the year ended 31 December 2017 was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures.

Any adjustments that might have been found to be necessary in respect of the above may have consequential significant effects on the loss and cash flows of the Group for the year ended 31 December 2017 and the related disclosures in the consolidated financial statements, as well as the disclosures in the consolidated financial statements concerning the Disposal and the nature and amounts of significant transactions and events of the Disposal Group up to the Disposal Date, including transactions with related parties.

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 section of our report. We are independent of the Group in accordance with the HKICPA 's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements 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. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the goodwill	
Refer to note 18 to the consolidated financial statements and the accounting policies in note 4 to the consolidated financial statements.	
Management performed impairment assessment of goodwill with carrying amount of RMB3,100,000 and concluded that an impairment loss on goodwill approximately RMB9,146,000 was recognised in consolidated statement of profit or loss and other comprehensive income. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth and capital expenditure. Independent external valuation was obtained in order to support management's estimates.	Our procedures in relation to managements's impairment assessment included: • Evaluating the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking on a sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of trade receivables

Refer to Note 21 to the consolidated financial statements and the accounting policies in note 4 to the consolidated financial statement.

The Group had trade receivables of approximately RMB72,179,000 and provision for allowance for expected credit losses of approximately RMB9,919,000.

In general, the trade receivables credit terms granted by the Group to the customers ranged between 30 to 90 days. Management performed periodic assessment on the recoverability of the trade 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 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 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 receivables as at 31 December 2018 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 receivables as at 31 December 2018 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 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 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 20 to the consolidated financial statements and the accounting policies in note 4 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
As at 31 December 2018, the Group had inventories of approximately RMB149,296,000 and provision of inventories of approximately RMB51,846,000. 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. Kwok Tsz Chun.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Kwok Tsz Chun
Practicing Certificate Number: P06901

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **RMB'000**	2017 RMB'000
Continuing operations			
Revenue	8	**106,948**	115,805
Cost of sales		**(87,871)**	(75,151)
Gross profit		**19,077**	40,654
Other income and gain	9	**43**	1
Change in fair value of financial assets at fair value through profit or loss		**(9,111)**	(52,316)
Realised loss on disposal of financial assets at fair value through profit or loss		**(267)**	(26,209)
Provision for inventories		**(51,846)**	–
Selling and distribution expenses		**(31,329)**	(37,248)
Administrative expenses		**(22,687)**	(20,059)
Impairment loss on goodwill	18	**(9,146)**	–
Finance costs	10	**(1,462)**	(1,806)
Loss before taxation		**(106,728)**	(96,983)
Taxation	11	**(89)**	7,086
Loss for the year from continuing operations		**(106,817)**	(89,897)
Discontinued operation			
Loss for the year from discontinued operation	12	**–**	(27,178)
Loss for the year	13	**(106,817)**	(117,075)
Other comprehensive income/(loss) for the year, net of tax			
Reclassification adjustments of exchange reserve relating to foreign operations disposed of		**–**	(887)
Exchange differences on translation of foreign operations		**28,800**	(24,492)
Other comprehensive income/(loss) for the year, net of tax		**28,800**	(25,379)
Total comprehensive loss for the year		**(78,017)**	(142,454)
Loss for the year attributable to:			
Owners of the Company		**(106,817)**	(113,184)
Non-controlling interests		**–**	(3,891)
		(106,817)	(117,075)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Loss for the year attributable to owners of the Company arising from:			
Continuing operations		**(106,817)**	(89,897)
Discontinued operation		**–**	(23,287)
		(106,817)	(113,184)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(78,017)**	(138,563)
Non-controlling interests		**–**	(3,891)
		(78,017)	(142,454)
Loss per share attributable to owners of the Company			
For continuing and discontinued operations			
Basic and diluted (RMB)(cents)	17	**(3.09)**	(3.28)
For continuing operations			
Basic and diluted (RMB) (cents)	17	**(3.09)**	(2.60)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	19	**31,727**	37,587
Goodwill	18	**3,100**	11,917
		34,827	49,504
Current assets			
Inventories	20	**149,296**	120,684
Trade receivables	21	**72,179**	98,031
Financial asset at fair value through profit or loss	24	**10,828**	22,063
Deposits, prepayments and other receivables	22	**209,806**	290,611
Cash and bank balances	23	**6,495**	16,204
		448,604	547,593
Liabilities			
Current liabilities			
Trade payables	25	**3,658**	–
Accruals and other payables	26	**6,284**	21,653
Income tax payables		**145**	168
Obligations under finance lease			
– due within 1 year	27	**6,000**	11,302
		16,087	33,123
Net current assets		**432,517**	514,470
Total assets less current liabilities		**467,344**	563,974
Non current liabilities			
Obligations under finance lease			
– due after 1 year	27	**–**	10,483
		–	10,483
Net assets		**467,344**	553,491

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Equity			
Share capital	29	**29,181**	29,181
Reserves		**438,163**	524,310
Total equity		**467,344**	553,491

The consolidated financial statements on pages 42 to 106 were approved and authorised for issue by the Board of Directors on 28 March 2019 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 2018

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (Note (i))	Foreign currency translation reserve RMB'000 (Note (ii))	Share option reserve RMB'000 (Note (iii))	Capital reserve RMB'000 (Note (iv))	Other reserve RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	29,181	471,765	22,076	17,055	9,775	11	3,173	139,018	692,054	5,685	697,739
Loss for the year	–	–	–	–	–	–	–	(113,184)	(113,184)	(3,891)	(117,075)
Release upon disposal of subsidiaries	–	–	–	(887)	–	–	–	–	(887)	–	(887)
Other comprehensive loss for the year	–	–	–	(29,992)	5,500	–	–	–	(24,492)	–	(24,492)
Total comprehensive loss for the year	–	–	–	(30,879)	5,500	–	–	(113,184)	(138,563)	(3,891)	(142,454)
Release upon disposal of subsidiaries	–	–	(22,076)	–	–	(11)	(3,173)	25,260	–	(1,794)	(1,794)
At 31 December 2017	**29.181**	**471,765**	**–**	**(13,824)**	**15,275**	**–**	**–**	**51,094**	**553,491**	**–**	**553.491**
Effect of adjustment on adoption of HKFRS 9	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,130)**	**(8,130)**	**–**	**(8,130)**
At 1 January 2018 (Restated)	**29,181**	**471,765**	**–**	**(13,824)**	**15,275**	**–**	**–**	**42,964**	**545,361**	**–**	**545,361**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(106,817)**	**(106,817)**	**–**	**(106,817)**
Other comprehensive loss for the year	**–**	**–**	**–**	**28,800**	**–**	**–**	**–**	**–**	**28,800**	**–**	**28,800**
Total comprehensive loss for the year	**–**	**–**	**–**	**28,800**	**–**	**–**	**–**	**(106,817)**	**(78,017)**	**–**	**(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**	**–**	**467,344**

Notes:

(i) As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiary in accordance with the relevant laws and regulations applicable to the PRC enterprise. The appropriation may cease to apply if the balance of statutory surplus reserve has reached 50% of the PRC subsidiary registered capital. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

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

(iii) 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.

(iv) On 30 July 2014, Mr. Lin, Ms. Yan and Speedy Glory entered into a sale and purchase agreement, pursuant to which Speedy Glory acquired all the issued shares of Jiulongjiu from Mr. Lin and Ms. Yan at a nominal consideration of HK$2. The acquisition of Jiulongjiu was completed on the same date. The difference between the consideration and the paid up capital of Jiulongjiu was recorded as a capital reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Operating activities			
Loss before taxation			
From continuing operations		**(106,728)**	(96,983)
From discontinued operations		**–**	(27,178)
Adjustment for:			
Interest income		**–**	(1)
Dividend income		**(43)**	–
Finance costs	10	**1,462**	1,806
Provision for inventories		**51,846**	–
Depreciation of property	19	**4,350**	23,734
Impairment loss on goodwill		**9,146**	–
Change in fair value of financial asset at fair value through profit or loss		**9,111**	50,223
Amortisation of prepaid lease payment		**–**	299
Share-based payment expenses		**–**	5,500
Realised loss on financial assets at fair value through profit or loss		**267**	26,209
Gain on disposal of subsidiaries		**–**	(69,870)
Allowance for expected credit losses		**2,103**	–
Operating cash flows before movements in working capital		**(28,486)**	(86,261)
Increase in inventories		**(80,458)**	(27,452)
Decrease/(increase) in trade receivables		**23,749**	(28,965)
Purchase of financial assets at fair value through profit or loss		**–**	(16,066)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	6,331
Decrease/(increase) in deposits, prepayment and other receivables		**80,805**	(127,842)
Increase in trade payables		**3,658**	711
Decrease in accruals and other payables		**(15,369)**	(25,443)
Decrease in tax payable		**(112)**	–
Net cash used in operations		**(16,213)**	(304,987)
PRC income tax paid		**–**	(234)
Interest paid		**(1,462)**	–
Net cash used in operating activities		**(17,675)**	(305,221)

	Notes	2018 RMB'000	2017 RMB'000
Investing activities			
Interest received		**–**	1
Dividend income		**43**	–
Net cash inflow of disposal of subsidiary		**–**	60,712
Net cash generated from investing activities		**43**	60,713
Financing activities			
Proceeds from Borrowings		**–**	(500)
Repayment of obligations under finance lease		**(15,785)**	(23,565)
Net cash (used in)/generated from financing activities		**(15,785)**	(24,065)
Net decrease in cash and cash equivalents		**(33,417)**	(268,573)
Cash and cash equivalents at the beginning of the year		**16,204**	306,917
Effect of exchange rate change		**23,708**	(22,140)
Cash and cash equivalents at the end of the year		**6,495**	16,204

1. GENERAL INFORMATION

The Company was 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. 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.

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.

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

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

Basis of preparation *(Continued)*

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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The above new and revised HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

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

Impact on the consolidated financial statements

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated statement of financial position (extract)	31 December 2017 *RMB'000*	HKFRS 9 *RMB'000*	HKFRS 15 *RMB'000*	1 January 2018 *RMB'000*
Current assets				
Trade receivables	98,031	(7,816)	–	90,215
Deposits, prepayments and other receivables	290,611	(314)	–	290,297
Current liabilities				
Accruals and other payables	21,653	–	(4,256)	17,397
Contract liabilities	–	–	4,256	4,256
Net current assets	514,470	(8,130)	–	506,340
Net assets	553,491	(8,130)	–	545,361
Capital and reserves				
Reserves	524,310	(8,130)	–	516,180
Total equity	553,491	(8,130)	–	545,361

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments, Amendments to HKFRS 9 Prepayment Features with Negative Compensation and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, and 2) expected credit losses ("ECLs") for financial assets.

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

Impact on the consolidated financial statements *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Investment: Recognition and Measurement.

Accounting policies resulting from application of HKFRS 9 are disclosed in notes to consolidated financial statements.

Summary of effects arising from initial application of HKFRS 9

Classification and measurement of financial assets and financial liabilities at amortised cost

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets and financial liabilities that are within the scope of HKFRS 9 are subsequently measured at amortised cost.

There is no reclassification or remeasurement of the financial assets, including trade receivables, deposit and other receivables, bank deposit and cash balances for the adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at the date of initial application have not been impacted by the initial application of HKFRS 9.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follows:

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

Impact on the consolidated financial statements *(Continued)*

Summary of effects arising from initial application of HKFRS 9 *(Continued)*

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including deposits, other receivables and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follows:

Other financial assets measured at amortised cost

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The following table summarised the impact, net of tax, of transition HKFRS 9 on the opening balance of retained profits as at 1 January 2018 as follow:

	RMB'000
As at 31 December 2017	51,094
Decrease in expected credit losses ("ECLs") in	
– Trade receivables	(7,816)
– Other receivables	(314)
As at 1 January 2018 (restated)	42,964

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

Impact on the consolidated financial statements *(Continued)*

Other financial assets measured at amortised cost *(Continued)*

All loss allowances, including trade receivables and other receivables at amortised cost as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables RMB'000	Other receivables RMB'000	Total RMB'000
At 31 December 2017 – HKAS 39	–	–	–
Amounts re-measured through opening – retained earnings	(7,816)	(314)	(8,130)
At 1 January 2018 – HKFRS 9	(7,816)	(314)	(8,130)

HKFRS 15 Revenue from Contracts with Customers and the related amendments

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared with HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue mainly from following major sources which arise from contracts with customers.

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

Impact on the consolidated financial statements *(Continued)*

HKFRS 15 Revenue from Contracts with Customers and the related amendments *(Continued)*

Manufacturing, trading and retailing business of watch

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes to the audited consolidated financial statements.

Except for the reclassification of the contract liabilities from receipt in advance of RMB4,256,000 at initial application, HKFRS 15 was generally adopted without restating any other comparative information. There is no impact of transition to HKFRS 15 on retained earnings at 1 January 2018.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No impairment allowance was recognised at 1 January 2018.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 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.
3 Effective for annual periods beginning on or after 1 January 2020.
4 Effective for annual periods beginning on or after 1 January 2021.
5 Effective for annual periods beginning on or after a date to be determined.

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

New and revised HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

The directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's financial performance and financial positions.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition and other income recognition (applicable upon 1 January 2018)

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

A contract liability is recognised when the consideration is received from customers before the goods are delivered. A receivable is recognised when the goods are delivered and accepted as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group recognises revenue mainly from following major sources which arise from contracts with customers.

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)*

Revenue recognition (before 1 January 2018)

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

(i) Sales of goods

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

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

(ii) Interest income

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Other government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognised as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivables as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivables.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan on initial recognition.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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 (under the adoption of HKFRS 9 as at 1 January 2018)

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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

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.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 24.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, deposits, prepayments and other receivables, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Impairment of financial assets

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Other financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

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 continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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 collateralized borrowing for the proceeds received.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Derecognition *(Continued)*

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

Recognised financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised in profit or loss.

Financial assets

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically

a. debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ("**SPPI**"), are subsequently measured at amortised cost;

b. debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI; and

c. all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies, in other comprehensive income; and

- the Group may irrevocably designate a debt instrument that meets the amortised cost of FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("**ECLs**"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit impaired financial assets, 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. 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, in subsequent reporting periods, 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.

Interest income is recognised in profit or loss and is included in the "Other income" line item.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Amortised cost and effective interest method *(Continued)*

Impairment of financial assets

The Group recognises loss allowances for ECLs on the following financial instruments that are neither measured at FVTPL:

(a) Trade receivables

(b) Other receivables

(c) Cash and bank balances

ECLs are required to be measured through a loss allowance at an amount equal to:

(a) 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage l); or

(b) Lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**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 date. Assessment are done based on the Group's historical credit losses experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances.

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.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of financial instruments that share similar economic risk characteristics. The measurement of loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Amortised cost and effective interest method *(Continued)*

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Group considers both quantitative and quantitative 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 taken into account when assessing whether credit risk has increased significantly since initial recognition:

- 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 for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- 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; significant increases in credit risk on other financial instruments of the same 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.

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)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Amortised cost and effective interest method *(Continued)*

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than one year 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 that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

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

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

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

(d) the disappearance of an active market for a security because of financial difficulties; or

(e) the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

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, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Amortised cost and effective interest method *(Continued)*

Measurement and recognition of ECLs

The measurement of ECLs 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 as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk 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 each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors;
- Nature of collaterals for finance lease receivables; and
- External credit ratings where available.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Amortised cost and effective interest method *(Continued)*

Measurement and recognition of ECLs (Continued)

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risk are taken into account by adjusting the cash shortfalls being discounted.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9 and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

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.

Presentation of allowance for ECL in the combined statements of financial position

Loss allowances for ECL are presented in the combined statements of financial position as follows:

(a) for financial assets measured at amortised cost; loss allowances for ECL are presented in the combined statements of financial position as a deduction from the gross carrying amount of the assets;

(b) for equity instruments measured at FVTOCI, no loss allowance is recognised in the combined statements of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the FVTOCI reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (under the adoption of HKFRS 9 as at 1 January 2018) *(Continued)*

Amortised cost and effective interest method *(Continued)*

Derecognition of financial assets

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

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

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities, including other payables, amounts due to related companies, amount due to a related party and secured borrowings are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

Equity instruments

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

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

The Group assesses whether there are any indicators of impairment for an asset at the end of each reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, an estimation of the value in use of the cash-generating units to which the asset is allocated will be required. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

(b) Impairment of financial assets at amortised cost

The increase in loss allowances for expected credit loss for other receivables upon the transition to HKFRS 9 as of 1 January 2018 were approximately of RMB314,000. Details of impairment assessment under expected credit loss model of deposit and other receivables for the year ended 31 December 2018 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 2017 was approximately RMB11,917,000. Details of the impairment loss calculation are set out in note 18.

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

(g) Valuation of share options

As explained in Note 32, 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

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial asset at fair value through profit or loss	**10,828**	22,063
Financial assets at amortised cost/ Loans and receivables (including cash and bank balances)		
– Trade receivables	**72,179**	98,031
– Other receivables	**81,605**	95,269
– Cash and bank balances	**6,495**	16,204
Financial liabilities		
Amortised cost		
– Trade payables	**3,658**	–
– Other payables	**2,184**	14,149

(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, pledged bank deposits, cash and bank balances, financial asset at fair value through profit or loss, trade payables, accruals, 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 42.3% as at 31 December 2018 (2017: 43.1%) of the trade receivables and the largest trade receivable was 11.6% (2017: 9.8%) 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 debtors

	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
As at 1 January 2018						
Expected credit losses rate	2.11%	2.11%	2.11%	1.95%	27.74%	7.97%
Gross carrying amount (RMB'000)	32,244	36,188	6,908	256	22,435	98,031
Lifetime ECLs (RMB'000)	(679)	(763)	(146)	(5)	(6,223)	(7,816)
	31,565	35,425	6,762	251	16,212	90,215

	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

Other receivables relating to accounts that are long overdue with significant amounts, known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. The Group recognised the provision for expected credit losses by assessing the credit risk characteristics of debtor, discount rate and the likelihood of recovery and considering the prevailing economic conditions.

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

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 2018 and 31 December 2017, 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 2018 would decrease/increase by RMB1,490,000 (2017: increase/decrease by RMB2,763,000) 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 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

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 2017					
Non-derivative financial liabilities					
Other payables	14,149	–	–	14,149	14,149
Obligations under finance leases	10,375	17,430	–	27,805	21,785
	24,524	17,430	–	41,954	35,934

(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	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018				
Financial assets				
Financial assets at fair value through profit or loss	**10,828**	**–**	**–**	**10,828**
As at 31 December 2017				
Financial assets				
Financial assets at fair value through profit or loss	22,063	–	–	22,063

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 31/12/2018	Fair value as at 31/12/2017	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 RMB10,828,000	RMB22,063,000	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.

	2018 RMB'000	2017 RMB'000
Total borrowings (Note (a))	**–**	–
Total equity	**467,344**	553,491
Gearing ratio	**N/A**	N/A

Note:

(a) Total borrowings represented by bank borrowings.

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

	2018	2017
	RMB'000	RMB'000
Continuing operations:		
Branded watches	**85,691**	50,572
OEM watches	**5,380**	38,392
Third-party watches	**15,877**	26,841
	106,948	115,805

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.

	2018	2017
	RMB'000	RMB'000
Asia (excluding the PRC)	**39,255**	77,413
The PRC	**62,320**	29,223
Europe	**5,373**	9,169
	106,948	115,805

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 2018 and 2017.

8. REVENUE

	2018 RMB'000	2017 RMB'000
Branded watches	**85,691**	50,572
OEM watches	**5,380**	38,392
Third-party watches	**15,877**	26,841
Total revenue recognised at a point in time	**106,948**	115,805

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

	2018 RMB'000	2017 RMB'000
Continuing operations:		
Bank interest income	**–**	1
Dividend income	**43**	–
	43	1

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Continuing operations:		
Finance charges on obligations under finance lease	**1,462**	1,806

11. TAXATION

	2018 RMB'000	2017 RMB'000
Continuing operations:		
Hong Kong profits tax	**89**	273
Deferred taxation credit in Hong Kong	**–**	(7,359)
	89	(7,086)

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 Group is subject to Hong Kong Profit Tax at a rate of 16.5% for the year ended 31 December 2017.

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:

	2018		2017	
	RMB'000	**%**	RMB'000	%
Loss before taxation	**(106,728)**		(96,983)	
Tax at the application income tax rate	**(26,682)**	**(25.0)**	(24,246)	(25.0)
Effect of different tax rate in other countries	**9,072**	**8.5**	8,244	8.5
Tax effect of expenses not deductible for tax purpose	**17,699**	**16.6**	8,916	9.2
Taxation for the year	**89**	**0.1**	(7,086)	(7.3)

12. DISCONTINUED OPERATION

On 2 May 2017, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in Speedy Glory Limited and its subsidiaries ("Disposal Group"), which engaged in sales and manufacturing of economical watches, to an independent third party (the "Purchaser") for cash consideration of approximately RMB151,434,000, which was completed on 30 November 2017.

The operations of the Disposal Group represented a separate major line of business i.e. manufacturing of economical watches of the Group.

The disposal of the manufacturing of watches business was treated as discontinued operation in these consolidated financial statements in accordance with "HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations". The comparative consolidated statement of profit or loss and other comprehensive income and related notes have been re-presented as if the operation discontinued during the year had been discontinued at the beginning of the comparative period.

The profit/(loss) for the year from discontinued operation is set out below.

	2017 RMB'000
Loss for the year from discontinued operation	(97,048)
Gain on disposal of Disposal Group during the year	69,870
	(27,178)

The results of the discontinued operation included in the loss for the year are set out below.

	2017 RMB'000
Turnover	42,479
Cost of sales	(34,367)
Gross profit	8,112
Other income and gain	407
Selling and distribution expenses	(65,557)
Administrative expenses	(39,047)
Finance costs	(963)
Loss before taxation	(97,048)
Taxation	–
Loss for the year from discontinued operation	(97,048)
Loss for the year from discontinued operation attributable to:	
Owner of the Company	(93,157)
Non-controlling interests	(3,891)
	(97,048)

12. DISCONTINUED OPERATION *(Continued)*

Analysis of asset and liabilities over which control was lost:

	Net assets before netting RMB'000	Netting RMB'000	Non-current assets after netting RMB'000
Net assets			
Property, plant and equipment	65,771	–	65,771
Prepaid lease payments	12,604	–	12,604
Current assets			
Prepaid lease payments	327	–	327
Inventories	85,644	(85,644)	–
Trade receivables	10,954	–	10,954
Deposits, prepayment and other receivables	151,669	(132,842)	18,827
Cash and bank balance	11,482	–	11,482
Current liabilities			
Trade payables	(1,102)	–	(1,102)
Accruals and other payables	(3,761)	–	(3,761)
Amounts due to the Group	(218,843)	218,486	(357)
Bank borrowings	(30,500)	–	(30,500)
Net assets disposal of			84,245

Gain on disposal of subsidiaries

	2017 RMB'000
Cash consideration receivables	**151,434**
Net assets disposal of	**(84,245)**
Release of foreign currency translation reserve	**887**
Non-controlling interests	**1,794**
Gain on disposal	**69,870**

13. LOSS FOR THE YEAR

Continuing operations

Loss for the year has been arrived at after charging:

	2018 RMB'000	2017 RMB'000
Other staff costs:		
Salaries and other benefits	9,699	14,068
Retirement benefit schemes contribution	2,020	4,200
Total employee expenses	11,719	18,268
Advertising expenses	22,278	36,470
Auditors' remuneration	1,200	1,200
Cost of inventories recognised as cost of sales	87,871	75,151
Depreciation of property, plant and equipment	4,350	4,350
Allowance for expected credit losses	2,103	–
Share based payment expense	–	5,500

14. 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:

	2018 RMB'000	2017 RMB'000
Directors' fees	865	781
Retirement benefit schemes contributions	11	10
	876	791

14. DIRECTORS' EMOLUMENTS *(Continued)*

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

	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**

	Year ended 31 December 2017					
	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	198	–	–	–	10	208
Mr. Yang Xi	208	–	–	–	–	208
Mr. Zou Weikang	104	–	–	–	–	104
Independent non-executive director:						
Mr. Nie Xing (Note a)	61	–	–	–	–	61
Mr. Chang Wei (Note b)	38	–	–	–	–	38
Mr. Yu Chon Man	104	–	–	–	–	104
Mr. Zhong Weili (Note c)	42	–	–	–	–	42
Ms. Duan Baili (Note d)	26	–	–	–	–	26
	781	–	–	–	10	791

Notes:

a) Mr. Nie Xing was retired as Independent Non-Executive Director on 7 June 2017.

b) Mr. Chang Wei was refired as Independent Non-Executive Director on 7 June 2017.

c) Mr. Zhong Weili was appointed as Independent Non-Executive Director of the Company on 5 September 2017.

d) Ms. Duan Baili was appointed as Independent Non-Executive Director of Company on 16 August 2017.

For the years ended 31 December 2018 and 2017, 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.

15. EMPLOYEES' EMOLUMENTS

Five highest paid employees

Of the five individuals with the highest emoluments in the Group for the year, one (2017: Nil) was director of the Company whose emoluments are included in the disclosure in note 14 above. The emoluments of the remaining four (2017: five) individuals were as follows:

	2018 **RMB'000**	2017 RMB'000
Director	**421**	–
Non-director	**1,012**	1,632
	1,433	1,632

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

	2018 **RMB'000**	2017 RMB'000
Salaries, allowances and benefit in kind	**957**	1,562
Retirement benefit schemes contributions	**55**	70
	1,012	1,632

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

	2018	2017
Nil to HK$1,000,000	**4**	5

Senior management of the Group

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

	2018	2017
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.

16. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

17. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

For continuing and discontinued operations

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

	2018	2017
	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	**(106,817)**	(113,184)
	'000	'000
Number of shares		
Weight average number of ordinary shares for the purpose of basic and diluted loss per share	**3,456,000**	3,456,000

For continuing operations

(a) The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB106,817,000 (2017: RMB113,184,000) and the weighted average number of 3,456,000,000 ordinary shares (2017: 3,456,000,000 ordinary shares) in issue during the year.

(b) Diluted loss per share for the years ended 31 December 2018 and 2017 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. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY *(Continued)*

For discontinued operations

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

	2018	2017
	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	–	(23,287)
	'000	'000
Number of shares		
Weight average number of ordinary shares for the purpose of basic and diluted loss per share	**3,456,000**	3,456,000
	2018	2017
	RMB cents	RMB cents
Basic and diluted loss per share from discontinued operation	–	(0.67)

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMBNil (2017: RMB23,287,000) and the weighted average number of 3,456,000,000 ordinary shares (2017: 3,456,000,000 ordinary shares) in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2018 and 2017 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.

18. GOODWILL

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	**11,917**	12,826
Exchange alignment	**329**	(909)
At 31 December	**12,246**	11,917
Accumulated impairment losses:		
At 1 January	**–**	–
Impairment for the year	**9,146**	–
At 31 December	**9,146**	–
Carrying amount:		
At 31 December	**3,100**	11,917

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:

	2018 RMB'000	2017 RMB'000
Trading watch business	**12,246**	11,917

Disclose circumstance of impairment

In view of the continuos unfavorable operating result from the trading watch business, the directors assessed the recoverable amount of CGU at year ended 31 December 2018 and 2017.

For the year ended 31 December 2018, 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 16.22% per annum (2017: 19.22%). Cash flows beyond that five-year period have been extrapolated using a steady 3% growth rate (2017: 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

19. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Buildings RMB'000	Furniture, and office equipment RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
As at 1 January 2017	363	61,662	7,968	406,235	2,158	478,386
Additions	–	–	–	43,544	–	43,544
Disposals	(338)	(61,662)	(7,961)	(406,235)	(2,158)	(478,354)
Exchange realignment	(25)	–	(7)	(1,824)	–	(1,856)
As at 31 December 2017 and 1 January 2018	–	–	–	41,720	–	41,720
Exchange alignment	–	–	–	243	–	243
As at 31 December 2018	–	–	–	41,963	–	41,963
Accumulated depreciation and impairment losses						
As at 1 January 2017	328	28,455	6,604	355,802	2,034	393,223
Charge for the year	119	2,685	577	20,180	173	23,734
Disposals of subsidiaries	(426)	(31,140)	(7,178)	(371,632)	(2,207)	(412,583)
Exchange alignment	(21)	–	(3)	(217)	–	(241)
As at 31 December 2017 and 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	–	–	–	10,236	–	10,236
Net book values						
As at 31 December 2018	–	–	–	31,727	–	31,727
As at 31 December 2017	–	–	–	37,587	–	37,587

As at 31 December 2018, the carrying amount of the Groups plant and machinery of approximately RMB31,727,000 (2017: RMB37,587,000) of asset held under finance lease.

20. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**35,824**	10,053
Work in progress	**38**	31
Finished goods	**113,434**	110,600
	149,296	120,684

During the year ended 31 December 2018, 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 RMB51,846,000 has been recognised.

21. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**82,098**	98,031
Less: Allowance for expected credit losses	**(9,919)**	–
	72,179	98,031

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:

	2018 RMB'000	2017 RMB'000
0 to 30 days	**4,831**	32,244
31 to 60 days	**5,432**	36,188
61 to 90 days	**8,228**	6,908
91 to 180 days	**4,180**	256
Over 180 days	**49,508**	22,435
	72,179	98,031

21. TRADE RECEIVABLES *(Continued)*

Past due but not impaired

As at 31 December 2017 included in the Group's trade receivables balances are debts with carrying amounts of approximately RMB29,599,000 which were past due at the end of the reporting date for which the Group had not provided as there had not been a significant change in credit quality and the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

Aged analysis of receivables that are past due but not impaired

	2017 RMB'000
Overdue by:	
0 to 30 days	6,908
Over 30 days	22,691
	29,599

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 2018.

	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

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Deposits and prepayments (Note i)	**128,515**	195,342
Other receivables (Note ii)	**81,605**	95,269
Less: Allowance for expected credit losses	**(314)**	–
	209,806	290,611

Note: (i) Included in deposits and prepayments, (a) approximately RMB100,812,000 (2017: RMB167,910,000) represented the deposit and prepayments for purchase of inventories to independent third parties; (b) approximately RMB27,703,000 (2017: RMB27,432,000) represented the prepayment for advertising; (ii) included in other receivables approximately RMB61,207,000 (2017: RMB72,194,000) represented the consideration receivables of disposal of subsidiaries during the year 2017.

23. CASH AND BANK BALANCES

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	**6,158**	215
Cash at other financial institutions	**337**	15,989
Cash and bank balances	**6,495**	16,204

As at 31 December 2018, cash and bank balances carry interest at prevailing market saving rates from 0.01% to 0.02% (2017: 0.01% to 0.02%) per annum.

24. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Listed equity securities in Hong Kong	**10,828**	22,063

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

25. TRADE PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**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:

	2018 RMB'000	2017 RMB'000
0-30 days	**3,658**	–
	3,658	–

26. ACCRUALS AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Accruals	4,100	3,248
Receipt in advance	–	4,256
Other payables	2,184	14,149
	6,284	21,653

Note: Upon initial adoption of HKFRS 9, receipt in advance of approximately RMB4,256,000 was reclassified to contract liabilities at 1 January 2018. The contract liabilities represent the Group's obligation to transfer goods for which the Group has received consideration, or for which an amount of consideration is due from customers. The Group's revenue recognised that was included in the contract liabilities balance at the beginning of the period was approximately RMB4,256,000.

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment		Present value of minimum lease payment	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Amounts payable under finance leases:				
Within one year	7,658	10,375	6,000	11,302
More than one year and not more than five years	–	17,430	–	10,483
In the fifth year	–	–	–	–
	7,658	27,805	6,000	21,785
Less: Future finance charges	(1,658)	(6,020)	–	–
Present value of lease obligations	6,000	21,785	6,000	21,785
Less: Amount due within one year shown under current liabilities			(6,000)	(11,302)
Amount due after one year			–	10,483

	2018 RMB'000	2017 RMB'000
Analysis for reporting purpose as:		
Current liabilities	6,000	11,302
Non-current liabilities	–	10,483
	6,000	21,785

27. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

The Group leased certain plant and equipment under finance lease. As at 31 December 2018, the lease terms ranged from 3-4 years. (31 December 2017: 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.

28. DEFERRED TAXATION

The following is the major deferred tax liabilities recognised and movements thereon during the current year and prior years.

	Financial assets at the fair value through profit or loss RMB'000
As at 1 January 2017	(7,604)
Credited to consolidated statement of profit or loss and other comprehensive income (Note 11)	7,359
Exchange alignment	245
As at 31 December 2017, 1 January 2018 and 31 December 2018	–

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

At 31 December 2018, the Group has unused tax losses of approximately RMB13,587,000 (2017: RMB12,681,000) available for offset against the assessable profit for each particular year.

29. SHARE CAPITAL

	Number of Shares '000	**Nominal value** HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	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 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**3,456,000**	**34,560**	**29,181**

30. DETAILS OF THE COMPANY

(a) Statement of Financial Position of the Company:

	Notes	2018 RMB'000	2017 RMB'000
Assets			
Current assets			
Deposit, prepayment and other receivables		**31,668**	64,697
Amount due from subsidiaries		**192,285**	314,424
Cash and bank balance		**3,591**	13,344
		227,544	392,465
Liabilities			
Current liabilities			
Accruals		**4,206**	2,748
		4,206	2,748
Net current assets		**223,338**	389,717
Total assets less current liabilities		**223,338**	389,717
Net assets		**223,338**	389,717
Equity			
Share capital	29	**29,181**	29,181
Reserves	30(b)	**194,157**	360,536
Total equity		**223,338**	389,717

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2019 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 financial statements.

30. 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 2017	471,765	9,775	26,652	(42,895)	465,297
Loss for the year	–	–	–	(70,325)	(70,325)
Other comprehensive loss for the year	–	5,500	(39,936)	–	(34,436)
Total comprehensive loss for the year	–	5,500	(39,936)	(70,325)	(104,761)
At 31 December 2017 and 1 January 2018	471,765	15,275	(13,284)	(113,220)	360,536
Loss for the year	–	–	–	(193,358)	(193,358)
Other comprehensive income for the year	–	–	26,979	–	26,979
Total comprehensive income for the year	–	–	26,979	(193,358)	(166,379)
Release upon lapsed share options	–	(5,500)	–	5,500	–
As at 31 December 2018	471,765	9,775	13,695	(301,078)	194,157

31. 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.

32. 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.

32. 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 HK$	Exercised period	At 1 January 2017 '000	Granted during the period '000	Exercised during the period '000	Reclassification during the period '000	Lapsed/ forfeited during the period '000	At 31 December 2017 '000	Granted during the period '000	Exercised during the period '000	Reclassification during the period '000	Lapsed/ forfeited during the period '000	At 31 December 2018 '000
Other employees and consultants	16 June 2015	0.726	16 December 2015 to 15 June 2025	4,910	–	–	–	(810)	4,100	–	–	–	–	4,100
	16 June 2015	0.726	16 June 2015 to 15 June 2025	34,210	–	–	–	(2,240)	31,970	–	–	–	–	31,970
	9 November 2017	0.05	9 November 2017 to 8 November 2018	–	345,600	–	–	–	345,600	–	–	–	(345,600)	–
Total				39,120	345,600	–	–	(3,050)	381,670	–	–	–	(345,600)	36,070
Weighted average exercise price				HK$0.726					HK$0.114					HK$0.726

During the year ended 31 December 2018, total 345,600,000 share options were lapsed.

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

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

33. 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 14.

34. 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		
			2018	2017	**2018**	2017	
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.

35. 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.

	Bank borrowing	Obligations under finance lease	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2017	31,000	–	31,000
Accrued interest	–	1,806	1,806
Disposal of subsidiary	(30,500)	–	(30,500)
Repayment of bank borrowings	(500)	–	(500)
Additions to property, plant and equipments	–	43,544	43,544
Repayment of obligation under finance lease	–	(23,565)	(21,785)
At 31 December 2017, 1 January 2018	–	21,785	21,785
Repayment of obligation under finance lease	–	(15,785)	(15,785)
At 31 December 2018	–	6,000	6,000

36. NON-CASH TRANSACTION

(i) During the year ended 31 December 2017, additions of plant and equipment of approximately RMB43,544,000 was made under the finance lease.

(ii) During the year ended 31 December 2017, the Group disposed of 100% of Disposal Group for approximately RMB72,194,000, which was included in the other receivables.

(iii) During the year ended 31 December 2017, the equity-settled share-based payment were approximately RMB5,500,000.

37. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2019.