EDS Wellness Holdings Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8176)

Annual Report 2014

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This report, for which the directors (the "Directors") of EDS Wellness Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

This report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.eds-wellness.com.

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Yu Zhen Hua Johnny
(Chairman and Managing Director)
Mr. Chan Kin Wah Billy
Mr. Wang Shangzhong
Mr. Lee Chan Wah

Independent non-executive Directors
Mr. Tam B Ray Billy
Mr. Chu Kin Wang Peleus
Mr. Tse Joseph

COMPANY SECRETARY

Ms. So Man Yee

COMPLIANCE OFFICER

Mr. Yu Zhen Hua Johnny

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

AUTHORISED REPRESENTATIVES

Mr. Lee Chan Wah
Mr. Yu Zhen Hua Johnny

REMUNERATION COMMITTEE

Mr. Chu Kin Wang Peleus *(Chairman)*
Mr. Yu Zhen Hua Johnny
Mr. Tse Joseph

AUDIT COMMITTEE

Mr. Chu Kin Wang Peleus *(Chairman)*
Mr. Tam B Ray Billy
Mr. Tse Joseph

NOMINATION COMMITTEE

Mr. Chu Kin Wang Peleus *(Chairman)*
Mr. Yu Zhen Hua Johnny
Mr. Tam B Ray Billy

PRINCIPAL BANKERS

China CITIC Bank International Limited
Chong Hing Bank Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3811, 38/F.,
Shun Tak Centre, West Tower
168–200 Connaught Road Central
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law
Michael Li & Co

As to the Bermuda Law
Conyers Dill and Pearman

WEBSITE

www.eds-wellness.com

STOCK CODE

8176

CHAIRMAN'S STATEMENT

Dear Shareholders,

On 14 April 2014, the Company's shares resumed trading on the GEM of the Stock Exchange after a suspension period of over two years. The fact that it was able to do so reflected on the commitment to the Group by the board of directors working in tandem with our dedicated management team.

During the year under review, the completion of the acquisition of 51% interest in China Honest Enterprises Limited ("China Honest") will enable the Group to strengthen and broaden the scope of professional services and technological support to its customer and distribution networks, which lead to a stable income source to the Group and an improvement of the Group's profitability. In addition, the management always tries its utmost effort to secure sufficient working capital and improve the financial position of the Group. The issuance of convertible bonds to New Cove Limited ("New Cove") on 22 May 2014, the completion of the open offer and placing under general mandate as disclosed in the Company's announcements dated 25 June 2014 and 15 August 2014 respectively will provide an opportunity for the Company to strengthen and broaden its capital base and secure sufficient working capital for operations and future business development.

CONCLUSION

Finally, I would like to thank our board of directors, management and staff for their contributions to the Group. I would also like to extend my sincere gratitude to our shareholders, business partners, customers and suppliers for their continued supports.

Yu Zhen Hua Johnny
Chairman

Hong Kong, 18 September 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

At the request of the Company, trading in the shares of the Company has been suspended since 30 September 2011 due to the delay in publication of the Group's final results announcement for the year ended 30 June 2011. On 11 April 2014, the Company announced that as all the resumption conditions as set out in the Stock Exchange's letter dated 7 February 2014 had been satisfied and fulfilled, an application had been made to the Stock Exchange for the resumption of trading in the Company's shares on GEM of the Stock Exchange with effect from 9:00 a.m. on 14 April 2014 (the "Resumption"). Details of the Resumption were set out in the Company's announcement dated 11 April 2014.

In view of the insufficient of general working capital, the Company had entered into two short-term loan agreements in normal commercial terms with Koffman Investment Limited ("KIL"), of which Mr. Yu Zhen Hua Johnny, the chairman, executive Director and Managing Director, is the ultimate beneficial owner of KIL, in the principal of HK$10.0 million and HK$20.0 million on 8 February 2012 (the "KIL First Loan Agreement") and 27 March 2012 (the "KIL Second Loan Agreement") respectively. All the outstanding borrowings and interest expenses accrued for the KIL First Loan Agreement had been repaid on 7 May 2012. The loan facility of the KIL Second Loan Agreement was increased to a principal amount of HK$50.0 million and further increased to a principal amount of HK$60.0 million in accordance with the supplementary loan agreement dated 26 June 2012 and supplemental agreement dated 17 October 2013 respectively. The repayment date of all the outstanding borrowings for the Second Loan Agreement had been extended from 27 June 2012 to 28 February 2014, by entering of sixteen supplementary loan agreements dated 26 June 2012, 26 September 2012, 26 October 2012, 26 November 2012, 7 December 2012, 31 December 2012, 15 January 2013, 31 January 2013, 28 February 2013, 2 April 2013, 30 April 2013, 31 May 2013, 28 June 2013, 31 July 2013, 30 August 2013 and 31 December 2013 respectively. On 13 February 2014, the Company and KIL entered into the second supplemental agreement, pursuant to which the loan facility of the KIL Second Loan Agreement was increased to a principal amount of HK$80.0 million and the repayment date had been extended from 28 February 2014 to 31 December 2014.

As disclosed in the Company's announcement dated 19 February 2013, the sole director of Blu Spa (Hong Kong) Limited ("BSHK"), an unconsolidated subsidiary, decided to voluntarily wind-up BSHK. The Directors are of the view that the winding-up of BSHK will not have any material adverse financial effect on the Group. The resolution for the voluntary winding-up of BSHK was subsequently passed by its sole shareholder on 26 February 2013. In addition, Mr. Osman Mohammed Arab and Mr. Wong Kwok Keung of RSM Nelson Wheeler Corporate Advisory Limited were appointed as joint and several liquidators for the purpose of the winding-up of BSHK in the creditors' meeting held on 26 February 2013. As at the date of this report, the voluntary winding-up of BSHK is in progress.

The Directors have not consolidated the financial statements of BSHK and its subsidiaries (the "BSHK Group") and certain subsidiaries of the Company due to incomplete documentary information in respect of some transactions asserted to have been taken by these subsidiaries (together, the "Unconsolidated Subsidiaries") for the years ended 30 June 2012 and 30 June 2013 (the "De-consolidation"). Same as previous years, the Unconsolidated Subsidiaries have not been included in the audited consolidated financial statements for the year ended 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, as disclosed in the Company's circular dated 23 May 2013 and approved by Company's shareholders at the extraordinary general meeting held on 11 June 2013, (a) the Company and New Cove Limited (the "Subscriber"), an indirect wholly-owned subsidiary of Eternity Investment Limited (the "Subscriber Holding") of which its issue shares are listed on the Main Board of the Stock Exchange (stock code: 764), entered into a subscription agreement (the "Subscription Agreement") in respect of the issue of convertible bonds in the principal amount of HK$40.0 million (the "Convertible Bonds"); (b) the application to the Executive of the Securities and Futures Commission for the Whitewash Waiver in respect of the subscription as contemplated under the Subscription Agreement; and (c) the Company and Hong Kong Builders Finance Limited (the "Lender"), an indirect wholly-owned subsidiary of the Subscriber Holding, entered into a loan agreement (the "First Loan Agreement"), pursuant to which, the Lender had conditionally agreed to grant an unsecured loan in the principal amount of HK$40.0 million to the Company for a term of 3 years from the date of drawdown with an interest rate of 5% per annum (the "First Loan"). The First Loan Agreement will be conditional upon the completion of the Subscription Agreement.

On 30 August 2013, EDS International Holdings Limited ("EDS International"), a wholly-owned subsidiary of the Company, and two independent third parties (the "Vendors") entered into a legal binding term sheet (the "Term Sheet"), pursuant to which EDS International agreed to acquire and the Vendors agreed to sell 51% issued share capital (the "Sale Shares") of China Honest Enterprises Limited ("China Honest") and the obligations, liabilities and debts owing by or due from China Honest to the Vendors (the "Sale Loan") as at the completion date (the "Acquisition"). A formal share and purchase agreement, incorporating the major terms and conditions in the Term Sheet had been entered into between EDS International and the Vendors on 18 October 2013 (the "Sale and Purchase Agreement"). Pursuant to the Sale and Purchase Agreement, EDS International conditionally agreed to acquire and the Vendors conditionally agreed to sell the Sale Shares and the Sale Loan at the maximum consideration of HK$21.42 million. The maximum consideration shall be satisfied in the following manner: (a) a deposit of HK$2 million, being partial payment of the consideration, had been paid by EDS International to the Vendors in cash upon signing of the Sale and Purchase Agreement; and (b) the remaining balance HK$19.42 million shall be satisfied by EDS International by payment of cash and procuring of the Company to issue of the promissory notes in the amount of HK$7.0 million and $6.42 million respectively on the completion date. The Acquisition constitutes a very substantial acquisition on the part of the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to shareholders' approval at the extraordinary general meeting of the Company. Details of the transaction were set out in the Company's announcement and circular dated 4 November 2013 and 21 March 2014 respectively. The Acquisition had been completed on 11 April 2014. Following the completion of the Acquisition, China Honest became a 51% owned subsidiary of the Company whose results, assets and liabilities will be consolidated into the financial statements of the Company.

Pursuant to the Sale and Purchase Agreement, two tranches of promissory notes were issued to the Vendors in the aggregate principal amount of HK$7.0 million due on 30 June 2014 ("PN I") and HK$6.42 million due on 30 June 2015 ("PN II") respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

The Vendors irrevocably and unconditionally warrant and guarantee to EDS International that the profits before taxation and extraordinary items of China Honest for the years ending 31 March 2014 and 31 March 2015 will not be less than HK$4.0 million ("2014 Guaranteed Profit") and HK$9.0 million ("2015 Guaranteed Profit") respectively (collectively the "Profit Guarantee"). The Vendors shall compensate EDS International an amount equivalent to the shortfall between (i) the actual profit before taxation and extraordinary items of China Honest for the year ending 31 March 2014 and 2014 Guaranteed Profit ("2014 Shortfall"); and (ii) the actual profit before taxation and extraordinary items of China Honest for the year ending 31 March 2015 and 2015 Guaranteed Profit ("2015 Shortfall").

In case the Profit Guarantee is not fulfilled, the compensation obligation of the Vendors shall be discharged by way of setting off 2014 Shortfall or 2015 Shortfall (as the case may be) against the face value of the PN I (for 2014 Shortfall) or the PN II (for 2015 Shortfall) on a dollar for dollar basis. In the event that there shall remain any balance of 2015 Shortfall after the PN II is fully set off, such balance of 2015 Shortfall shall be paid by the Vendors to EDS International in cash within 7 Business Days.

The Vendors and EDS International shall procure that the audited financial statements of China Honest for the relevant period shall be prepared and reported on at the cost and expenses of EDS International by the auditors of the Company (the "Auditors") by the date falling three months after the expiry of the relevant period, and the Auditors shall issue a certificate (the "Guarantee Certificate") to certify the amounts of 2014 Actual Profit and 2015 Actual Profit. The Guarantee Certificate shall, in the absence of manifest error, be final and conclusive of the matters stated therein and binding on the Vendors and EDS International provided that the Auditors should have consulted with EDS International and taken into account the Vendors' views before the issue of the Guarantee Certificate.

Based on the Guarantee Certificate issued by the Auditors on 18 July 2014, the Auditors confirmed that the actual profit before taxation and extraordinary items of China Honest for the year ended 31 March 2014 is not less than HK$4 million and the profit before taxation and extraordinary items in accordance with China Honest's audited financial statements for the year ended 31 March 2014 was HK$4,627,735 which exceeded the guaranteed profit of HK$4 million for such financial year.

Since the actual profit of China Honest for the year ended 31 March 2014 exceeded 2014 Guaranteed Profit, no setting off against the face value of the PN I is necessary. The PN I has been settled on 27 July 2014.

Since completion of the Acquisition on 11 April 2014, China Honest contributed approximately HK$9.3 million to the turnover of the Group for the year ended 30 June 2014 in which approximately HK$9.0 million and HK$0.3 million were derived from the provision of therapy services and sales of beauty products respectively. The gross profit margin for the period from the date of completion of the Acquisition to 30 June 2014 was approximately 43.6%. The net profit for the period from the date of completion of the Acquisition to 30 June 2014 was approximately HK$2.3 million of which, after deducting the amount of non-controlling interests, approximately HK$1.2 million was contributed to the Group's consolidated financial results for the year ended 30 June 2014. Since completion of the

MANAGEMENT DISCUSSION AND ANALYSIS

Acquisition, the performance of China Honest has exceeded the expectation of the management. The actual net profit of China Honest for the period from the date of completion of the Acquisition to 30 June 2014 exceeded the forecast net profit for the same period by approximately 20%.

On 30 August 2013, the Company announced that on 29 August 2013, EDS Distribution Limited, an indirect wholly-owned subsidiary of the Company, has been granted by Montaigne Limited the exclusive distributorship of the "Evidens de Beauté" products in Macau up until 30 June 2015 which shall be renewed automatically thereafter for period of 1 year each unless terminated by either party. In May 2014, the Group cooperated with a renowned high fashion brand in Hong Kong for the sub-distribution of "Evidens de Beaute" products in its new concept store in Macau. With effect from August 2014, the counterparty had placed "Evidens de Beauté" products for retail sales in its new concept store in Macau.

A new "Extreme" line of the "Evidens de Beauté" products, (a) The Cream; and (b) The Serum, had been launched on market in December 2013.

On 20 March 2014, the Company and the Lender entered into a loan agreement (the "Second Loan Agreement"), pursuant to which, the Lender had conditionally agreed to grant a loan (the "Second Loan") in the principal amount of HK$30.0 million with an interest rate of 5% per annum to the Company for a term of 36 months from the date of drawdown. Details of the Second Loan Agreement were set out in the Company's announcement dated 20 March 2014.

With effect from 22 April 2014 (Bermuda Time), the Company had been deregistered in the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda (the "Change in Domicile"). In connection with the Change of Domicile, the memorandum of continuance and bye-laws had been adopted by the Company.

After the Change of Domicile becoming effective on 22 April 2014 (Bermuda Time), with effect from 13 May 2014, the capital of the Company had been reorganised in the following manner (the "Capital Reorganisation"):

(a) the par value of each of the issued share of the Company of HK$0.10 was reduced to HK$0.001 by cancelling the paid-up capital to the extent of HK$0.099 on each issued share (the "Capital Reduction");

(b) the credit of HK$129,907,800.00 arising from the Capital Reduction had been transferred to the contributed surplus account of the Company. Together with the balance of HK$175,357,082.10 to be transferred from the share premium account of the Company, the balance of the contributed surplus account of the Company became HK$305,264,882.10 upon the Capital Reduction becoming effective. An amount of HK$278,123,606.72 had been drawn from the contributed surplus account of the Company and had been applied to set off against the accumulated losses of the Company; and

MANAGEMENT DISCUSSION AND ANALYSIS

(c) after the Capital Reduction, effect a consolidation of the issued shares of the Company whereby every one hundred issued shares of HK$0.001 each in the share capital of the Company had been consolidated into one issued consolidated share of HK$0.10 each.

Details of the Change of Domicile and Capital Reorganisation were set out in the Company's announcement dated 23 April 2014.

On 22 May 2014, the Company announced that all conditions precedent to the subscription of the Convertible Bonds in the principal amount of HK$40.0 million and the First Loan Agreement had been fulfilled. The subscription for the Convertible Bonds in the principal amount of HK$40.0 million was completed on 22 May 2014 and the First Loan in the principal amount of HK$40.0 million was drawdown on 26 May 2014. Details of the transactions were set out in the Company's announcement dated 22 May 2014.

As the usage rate of the "Le Spa Evidens" was not in full-capacity, the management decided to relocate the "Le Spa Evidens" to a new premises at a prime location in Central, Hong Kong with effect from 13 June 2014. The new shop shall provide therapy services and sales of beauty products. Despite the fact that a loss on disposal of fixed assets of approximately HK$1.8 million was incurred by such relocation, the management believes that the relocation of the "Le Spa Evidens" will maximize the economic benefit of the Group's operation in the long run by the potential increase in revenue derived from the sales of beauty products and the decrease of operating costs such as rental expenses.

On 25 June 2014, the Company announced the proposal to raise approximately HK$57.18 million before expenses by way of the open offer (the "Open Offer") issuing 19,061,000 offer shares (the "Offer Shares") on the basis of one Offer Share for every two existing shares held on the record date and payable in full upon application at the subscription price of HK$3.00 per Offer Share. Kingston Securities Limited was the underwriter (the "Underwriter") of the Open Offer. The Subscriber had irrevocably undertaken to the Company and the Underwriter (i) to convert the Convertible Bonds in the principal amount of HK$25,000,000.00 into 25,000,000 shares of the Company on or before the commencement of the book close period; (ii) not to convert the remaining balance of the Convertible Bonds in the principal amount of HK$15,000,000.00 into 15,000,000 shares of the Company on or before the record date; and (iii) to subscribe for or procure the subscription for the 12,500,000 Offer Shares to be allotted to it under its entitlement pursuant to the Open Offer (the "New Cove Undertaking"). The Board intended to apply all the net proceeds from the Open Offer, after deducting all relevant expenses, of approximately HK$54.00 million for the repayment of the outstanding debt of the Company. The Open Offer was completed on 11 August 2014. Details of the transactions were set out in the Company's announcement and prospectus dated 25 June 2014 and 17 July 2014 respectively. On 2 July 2014, the Subscriber converted the Convertible Bonds in the principal amount of HK$25,000,000.00 into 25,000,000 shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Due to De-consolidation, the financial statements of the Unconsolidated Subsidiaries have not been included in the audited consolidated financial information of the Group for the year ended 30 June 2014.

During the year under review, the Group recorded a turnover of approximately HK$27.6 million, representing an increase of approximately 238.8 % as compared with last year, of which approximately HK$16.5 million (2013: approximately HK$4.5 million), HK$11.1 million (2013: approximately HK$2.6 million) and HK$Nil (2013: approximately HK$1.1 million) were generated from the sales of beauty products, provision of therapy services and sales of beauty equipment respectively.

China Honest, the 51% owned subsidiary acquired on 11 April 2014, contributed approximately HK$9.3 million to the turnover of the Group, representing approximately 33.6% of the total turnover, of which approximately HK$0.3 million and HK$9.0 million were generated from the sales of beauty products and provision of therapy services respectively.

Other income of approximately HK$4.9 million (2013: approximately HK$9.1 million) was mainly contributed by the other interest income of approximately HK$4.7 million on overdue receivable in relation to the refundable deposits of approximately HK$39.1 million.

The gross profit margin was approximately 39.8% as compared with a gross loss margin of approximately 43.6% recorded in the last year. China Honest contributed approximately HK$4.0 million to the gross profit of the Group, representing approximately 36.7% of the total gross profit.

The selling and distribution costs was approximately HK$1.0 million (2013: approximately HK$2.3 million), representing a decrease of 56.5 % over the last year. China Honest accounted for approximately 20.9 % or HK$0.2 million of the total selling and distribution costs. The decrease in the selling and distribution costs was mainly contributed by the non-recurrence of one-off expenditure in relation to the initial launch of the brand “Evidens de Beauté” in Hong Kong in last year.

The administrative expenses was approximately HK$18.3 million (2013: approximately HK$21.8 million), representing a decrease of 16.0 % over the last year. China Honest accounted for approximately 5.0 % or HK$0.9 million of the total administrative expenses. Such decrease was mainly contributed by the decrease of staff costs of approximately HK$2.6 million and rental expense for office use of approximately HK$0.74 million during the year under review.

The finance costs of HK$6.7 million was mainly attributed to (i) the loan interest expenses paid to KIL and the Lender; and (ii) the imputed interest arisen from the issuance of convertible bonds and promissory notes during the year under review. The increase in approximately 77.7 % in the finance costs was consistent with the increase in the loan borrowings during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

The consolidated loss attributable to owners of the Company amounted to approximately HK$11.8 million for the year ended 30 June 2014 (2013: HK$23.6 million), representing a decrease of approximately 50.0 % as compared with last year. The improvement of the Group's results was mainly contributed by the turnaround of the Group's operation from gross loss margin to gross profit margin and the contribution from China Honest, the newly acquired 51% owned subsidiary during the year.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2014, the Group had total assets of HK$141.9 million (30 June 2013: HK$53.8 million), including cash and bank balances of approximately HK$43.1 million (30 June 2013: HK$1.8 million).

During the year under review, the Group financed its operation with internally generated cash flows, proceeds from the issuance of Convertible Bonds and the borrowings from KIL and the Lender.

CAPITAL STRUCTURE

(a) Capital Reorganisation

With effect from 13 May 2014, the capital of the Company had been reorganised in the following manner:

(i) the par value of each of the issued share of the Company of HK$0.10 was reduced to HK$0.001 by cancelling the paid-up capital to the extent of HK$0.099 on each issued share (the "Capital Reduction");

(ii) the credit of HK$129,907,800.00 arising from the Capital Reduction had been transferred to the contributed surplus account of the Company. Together with the balance of HK$175,357,082.10 to be transferred from the share premium account of the Company, the balance of the contributed surplus account of the Company became HK$305,264,882.10 upon the Capital Reduction becoming effective. An amount of HK$278,123,606.72 had been drawn from the contributed surplus account of the Company and had been applied to set off against the accumulated losses of the Company; and

(iii) after the Capital Reduction, effect a consolidation of the issued shares of the Company whereby every one hundred issued shares of HK$0.001 each in the share capital of the Company had been consolidated into one issued consolidated share of HK$0.10 each.

(b) At 30 June 2014, the total borrowings and other financial liabilities of the Group amounted to HK$105.2 million (30 June 2013: HK$42.4 million), representing:

(i) the borrowings from the Lender of approximately HK$61.0 million which is unsecured, at an interest rate of 5% per annum and repayable within three years;

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) the accrued interest expense for the borrowings up to 30 June 2014 payable to the Lender of approximately HK$0.4 million which is repayable within one year;

(iii) the borrowings from Dr. Lo Shing Kei of approximately HK$1.4 million, which is unsecured, non-interest bearing and repayable on demand;

(iv) the liability component of approximately HK$12.7 million in respect of the promissory notes in an aggregate principal amount of HK$13.42 million of which are non-interest bearing, unsecured and HK$7 million and HK$6.42 million are repayable on 30 June 2014 and 30 June 2015 respectively; and

(v) the liability component of approximately HK$29.7 million in respect of the convertible bonds with an aggregate principal amount of HK$40.0 million issued to the Subscriber on 22 May 2014 which is unsecured, non-interest bearing and maturing on 22 November 2016.

GEARING RATIO

The gearing ratio, expressed as percentage of total borrowings to total assets, was 74.2 % (30 June 2013: 78.8%). The slight improvement in the ratio was mainly contributed by the increase in cash and bank balances from the issuance of convertible bonds and increase in assets resulted from the completion of the acquisition of China Honest.

CHARGE ON THE GROUP'S ASSETS

As at 30 June 2014, the Group had pledged bank deposits of approximately HK$12.5 million (2013: HK$0.5 million) to banks to secure banking facilities in respect of credit card and instalment sales arrangement.

FOREIGN EXCHANGE RISK

The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

COMMITMENTS

As at 30 June 2014, the Group had operating lease commitments of HK$7.6 million (30 June 2013: HK$4.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 30 June 2014, save as disclosed in note (b) under the section headed "Litigation" below, the Group had no material contingent liabilities (30 June 2013: HK$Nil).

EMPLOYEES

At 30 June 2014, the Group had 50 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme.

SIGNIFICANT INVESTMENT

The Group did not enter into any new significant investment during the year ended 30 June 2014.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as the acquisition of China Honest as disclosed in the paragraph under the section headed "Business Review" above, the Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies for the year ended 30 June 2014.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have any concrete plan for material investments or capital assets for the coming year.

OUTLOOK

The management is cautious on the recent detrimental factors affecting the local retail market, including the slowdown of the growth of Mainland visitors to Hong Kong and the weakening of Mainland tourists' spending power and shall adopt a relatively conservative approach in business expansion. The Group will focus to expand its point of sale in high traffic and prime location.

Meanwhile, in addition to the relocation of the "Le Spa Evidens", the management will exert other measures to control its operating costs and seek for opportunity to strengthen and broaden the capital base of the Group in order to improve its financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

On 15 August 2014, the Company and Kingston Securities Limited (the "Placing Agent") entered into a placing agreement (the "Placing Agreement"), pursuant to which the Company had conditionally agreed to place, through the Placing Agent on a best effort basis, 2,620,000 placing shares to currently expected not less than six placees at a price of HK$3.15 per placing share (the "Placing"). The gross proceeds and the net proceeds after deducting relevant expenses from the Placing will be approximately HK$8.25 million and approximately HK$7.86 million respectively. The Board intended to apply approximately HK$7.54 million and approximately HK$0.32 million of the net proceeds of the Placing for the repayment of all the outstanding loan indebted to the Lender and general working capital of the Group respectively. The Placing was completed on 28 August 2014. Together with the application of the net proceeds of HK$54.0 million raised by the Open Offer completed on 11 August 2014 for the repayment of the outstanding loan, the Group has repaid all its interest bearing borrowings as at the date of this report. The management is of the view that these fund raising exercises represent an opportunity to reduce the interest burden from the outstanding borrowings of the Group and in turn improve the financial position of the Group.

The Group will continue to promote the brand of the "Evidens de Beauté" products, including: (a) to subscribe advertising plan with a luxury magazine in Hong Kong; (ii) to arrange small group gatherings with beauty editors to share news within the industry and to increase the exposure of the "Evidens de Beauté" brand; and (iii) to place advertisements in social mobile media.

LITIGATION

(a) As disclosed in the Company's announcements dated 5 April 2012, 4 July 2012, 24 July 2012, 3 August 2012, 21 August 2012, 28 September 2012, 26 October 2012, 1 November 2012, 21 December 2012, 29 January 2013, 25 April 2013 and 3 May 2013 respectively in relation to, among other matters, the deed of termination, entered into between Blu Spa (Hong Kong) Limited ("BSHK", an unconsolidated subsidiary) and Mr. Shum Yeung ("Mr. Shum") in relation to the termination of the acquisition of 70% equity interest of Vertical Signal Investments Limited, pursuant to which Mr. Shum shall repay BSHK the full amount of the refundable deposit of HK$45,000,000, the issuing of the writ of summons (the "Writ") in the High Court of Hong Kong Special Administrative Region by BSHK against Mr. Shum, the subsequent execution of the deed of settlement (the "Deed of Settlement") by BSHK and Mr. Shum for the settlement of legal proceedings represented by the Writ, the extension to the repayment dates for Mr. Shum to make repayment pursuant to the Deed of Settlement, the execution of the deed of assignment (the "Deed of Assignment"), the execution of a second deed of settlement (the "Second Deed of Settlement") by BSHK, the Company and Mr. Shum, the repayment proposal agreed between the Company and Mr. Shum (the "Repayment Proposal"), the new repayment proposal agreed between the Company and Mr. Shum (the "New Repayment Proposal") and the additional security provided by Dutfield International Group Company Limited to the Company for the recovery of the outstanding amount due by Mr. Shum.

MANAGEMENT DISCUSSION AND ANALYSIS

As Mr. Shum defaulted to settle the outstanding amount due to the Company, the Company applied to the Court to restore the hearing of the summary judgment application and substitute BSHK as the plaintiff in the summary judgment application against Mr. Shum. On 25 July 2013, a consent order was granted by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region that, among others, the Company be granted leave to substitute BSHK as the plaintiff in the legal action against Mr. Shum. An amended statement of claim was filed on about 30 July 2013.

At the hearing of the Company's application for summary judgment held on 6 September 2013 (the "Summary Judgment"), the Court adjudged that Mr. Shum (i) do pay the Company the sum of HK$39,127,500 together with contractual interest thereon calculated from day to day at the rate of 30% per annum from 1 May 2013 to 6 September 2013, and thereafter at judgment rate pursuant to s. 48 of High Court Ordinance until payment, i.e. 8% per annum from 7 September 2013 until payment; and (ii) shall pay the Company the costs of this action including the costs of the Company's judgment to be taxed if not agreed. The Company demanded Mr. Shum's immediate payment of the judgment debt. As Mr. Shum failed to settle the judgment debt, the Company applied to the Court for garnishee orders (the "Garnishee Orders") and charging orders (the "Charging Orders") for the recovery of the judgment debt. The hearing of the Garnishee Orders and Charging Orders was originally fixed to be heard on 6 November 2013. However, Mr. Shum made an application to the Court on 4 November 2013 for staying the proceedings for the Charging Orders and the Garnishee Orders and setting aside the Summary Judgment. The Company asked for the adjournment of hearing on 6 November 2013 in order to file and serve affirmation in opposition to Mr. Shum's application. The application for making the Charging Orders and Garnishee Orders and Mr. Shum's application was therefore adjourned to be heard on 5 March 2014. The Court did not make judgment at the close of the hearing and will hand down the judgment later. As at the date of this report, the judgment has not yet been handed down by the Court.

(b) As disclosed in the Company's announcement dated 12 May 2014, on 28 April 2014, the Company received a writ of summons (the "Writ of Summons") from the People's Court of Huadu District, Guangzhou City, Guangdong Province of the People's Republic of China.

MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to the two writs of civil proceedings (the "Writs of Civil Proceedings") enclosed with the Writ of Summons, the plaintiff 廣州市溢盈物業管理服務有限公司 (Guangzhou Yiying Property Management Services Co. Ltd.#) ("Yiying"), a property management company, alleges that, among others, (i) 廣州市雅基置業有限公司 (Guangzhou Yaji Properties Co. Ltd.#) ("Yaji") has defaulted in payment of the management fees and utilities and miscellaneous fees in the aggregate amount of RMB2,868,001.50 in respect of certain commercial properties owned by Yaji in Huadu District, Guangzhou City (the "Properties") for the period from February 2012 to January 2014; and (ii) after the Properties had been sold and transferred to Yaji by 廣州市花都佳業房地產開發有限公司 (Guangzhou Huadu Jiaye Property Development Co. Ltd.#) ("Jiaye"), Yaji continued to default in payment of the management fees and as Yaji did not have enough capacity for payment, upon discussion between the parties, Yaji, the Company, Yiying and Jiaye entered into a letter of confirmation (the "Letter of Confirmation") on 26 November 2010 providing that the obligations which should be performed by Yaji in relation to the management of the Properties would be assumed and performed by the Company. As such, the Company shall be jointly liable for the payment of the outstanding management fees and utilities and miscellaneous fees.

Under the Writs of Civil Proceedings, Yiying requests the People's Court of Huadu District to:

(i) order Yaji and the Company to forthwith and jointly pay to Yiying the outstanding management fees from February 2012 to January 2014 in the aggregate amount of RMB2,865,507.90 and the default payment until the day of actual repayment (which is in the aggregate amount of RMB1,369,098.68 as at 31 January 2014), totalling RMB4,234,606.58;

(ii) order Yaji and the Company to forthwith and jointly pay to Yiying the outstanding utilities and miscellaneous fees from February 2012 to January 2014 in the aggregate amount of RMB2,493.60 and the interest loss until the day of actual repayment (which is in the aggregate amount of RMB304.00 as at 31 January 2014), totalling RMB2,797.60;

(iii) order the appraisal fee of RMB7,500.00 for the security for the application for preservation of property be borne jointly by Yaji and the Company; and

(iv) order all costs of the legal proceedings be borne jointly by Yaji and the Company.

With reference to the announcements of the Company dated 30 April 2010, 5 April 2012, 4 July 2012, 24 July 2012, 3 August 2012, 21 August 2012, 28 September 2012, 26 October 2012, 1 November 2012, 21 December 2012, 29 January 2013 and 25 April 2013 in relation to, among others, the proposed acquisition of a company which held the entire equity interest in Yaji, the termination of such proposed acquisition and the legal proceedings against Mr. Shum Yeung. Although Yaji was once a wholly-owned subsidiary of the target company to be acquired by the Group, such proposed acquisition was terminated and the Group has never acquired any equity interest in Yaji.

The English translation of the Chinese name(s) in this report, where indicated, is included for information purpose only, and shall not be regarded as the official English name(s) of such Chinese name(s).

MANAGEMENT DISCUSSION AND ANALYSIS

Having examined a copy of the Letter of Confirmation enclosed with the Writ of Summons, reviewed the internal records of the Company and enquired with the former management of the Company at the relevant times, the Company considers that the signature of the alleged representative of the Company on the Letter of Confirmation was not signed by any authorised representative of the Company and may be forged for, among others, the following reasons:

(i) the signature of the alleged representative of the Company on the Letter of Confirmation was different from those of the former directors and the chief executive officer of the Company at the relevant times;

(ii) the company chop affixed to the Letter of Confirmation was not the one commonly used by the Company for the execution of documents;

(iii) the style of the signature and the handwriting of the date of execution of the alleged representative of the Company highly resembles those of Yaji on the same Letter of Confirmation;

(iv) the internal records of the Company do not show that the Company has executed or approved the Letter of Confirmation; and

(v) the former chairman and executive director, the former vice-chairman and executive director and the former chief executive officer of the relevant times have confirmed that (a) they had never seen or signed the Letter of Confirmation; (b) the Letter of Confirmation had never been tabled for discussion in any meetings of directors they attended and they had never passed any resolution in any meeting of directors of the Company to approve the Letter of Confirmation or authorised any person to represent the Company to sign the Letter of Confirmation; and (c) they are not aware of any person having signed the Letter of Confirmation for and on behalf of the Company.

The Company instructed a lawyer in the PRC to defend the two cases. Three hearings were held by the People's Court of Huadu District on 16 June 2014, 30 June 2014 and 15 August 2014 respectively. The Court did not make judgment at the close of the third hearing and will hand down the judgment later. As at the date of this report, the judgment has not yet been handed down by the Court.

In view of the above, the Directors are of the view that no provision for the claims of these legal proceedings is required to be made at this stage.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Yu Zhen Hua Johnny ("Mr. Yu"), aged 46, joined the Company as an executive Director and managing Director on 13 February 2012. He was appointed as the chairman of the Board (the "Chairman") on 16 August 2012. He is also the authorized representative, compliance officer, the chairman of the Special Investigation Committee, a member of each of the remuneration committee of the Company (the "Remuneration Committee") and the nomination committee of the Company (the "Nomination Committee"), and directors of various subsidiaries of the Company. Mr. Yu has over 20 years of experience in the finance industry. He graduated from University of Southern California with a Bachelor of Arts degree in Social Sciences and Communication (Economics) in 1991. After that, he had worked in the investment banking field in Hong Kong for about two years and he went on to start his own financial service business in 1996. Mr. Yu has then gained extensive experience in the investment field, including securities brokerage services, futures trading, corporate finance, property investment, corporate restructuring, asset recovery and liquidation exercises. He was an executive director of each of a securities dealing company from April 1996 to September 2004 and a future trading company from 1997 to April 2000. Mr. Yu also held a position of senior executive in a company listed on the Main Board of the Stock Exchange. He was an executive director of Infoserve Technology Corp., a company originally listed in Hong Kong and was delisted in May 2005, from November 2003 to January 2010. Mr. Yu was also appointed as an executive director and the managing director of M Dream Inworld Limited ("M Dream") (stock code: 8100), a company listed on GEM of the Stock Exchange, in January 2007 and was appointed as the chairman of the board of directors of M Dream in May 2008. He resigned from all his positions in M Dream in September 2009.

Mr. Chan Kin Wah Billy ("Mr. Chan"), aged 51, joined the Company as an executive Director on 5 August 2014 and has over 25 years of experience in accounting and financial control. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. Mr. Chan holds a Bachelor of Administration Degree from the University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from the University of New South Wales in Australia. Mr. Chan is an executive director and the company secretary of Eternity Investment Limited (Stock code: 764), a company listed on the main board of the Stock Exchange. Eternity Investment Limited is the controlling shareholder of the Company.

Mr. Wang Shangzhong, ("Mr. Wang"), aged 51, joined the Company as an executive Director on 10 August 2011. He has worked for banks, securities companies and investment companies for more than 10 years and has acquired extensive experiences in management and investment. During the period from 2006 to early 2011. Mr. Wang SZ held the positions of director and president of Hengyi Petrochemical Co., Ltd. (formerly known as "Centennial Brilliance Science & Technology Co., Ltd.") (Shenzhen Stock Exchange stock code: 000703), a company listed on the Shenzhen Stock Exchange.

Mr. Lee Chan Wah ("Mr. Lee"), aged 46, was firstly appointed as the company secretary on 13 February 2012 and further appointed as an executive Director on 16 August 2012. He resigned as the company secretary on 9 September 2013 and is presently the authorized representative and directors of certain subsidiaries of the Company. Mr. Lee has over 22 years of experience in the field of auditing, accounting

DIRECTORS AND SENIOR MANAGEMENT PROFILE

and finance. He holds a Bachelor of Business Administration degree from the Hong Kong Baptist University. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam B Ray Billy ("Mr. Tam") aged 46, joined the Company as an independent non-executive Director on 5 March 2012. He is also a member of each of the audit committee of the Company (the "Audit Committee"), the Nomination Committee and the Special Investigation Committee. Mr. Tam has been a practicing solicitor in Hong Kong for over 17 years. He holds a Bachelor of Laws degree from the University of London, a Bachelor degree in laws of the People's Republic of China from Tsinghua University and a Master of Laws degree from the University of Hong Kong. Mr. Tam a partner of Messr. Ho & Tam. He is an independent non-executive directors of China Fortune Financial Group Limited (stock code: 290), a company listed on the Main Board of the Stock Exchange, since 2007, and M Dream Inworld Limited (stock code: 8100) and China Natural Investment Company Limited (stock code: 8250), both of which are listed on GEM of the Stock Exchange, from June 2010 to November 2013 and from November 2011 to June 2014 respectively. Mr. Tam is also a non-executive director of Larry Jewelry International Company Limited (stock code: 8351), a company listed on GEM of the Stock Exchange, from December 2010 to September 2014, and Milan Station Holdings Limited (stock code: 1150), a company listed on the Main Board of the Stock Exchange, since 2011.

Mr. Chu King Wang Peleus ("Mr. Chu") aged 50, joined the Company as an independent non-executive Director on 5 March 2012. He is also the chairman of each of the Audit Committee, the Remuneration Committee and the Nomination Committee and a member of the Special Investigation Committee. Mr. Chu has over 23 years of experience in corporate finance, auditing, accounting and taxation. He graduated from the University of Hong Kong with a Master Degree in Business Administration. Mr. Chu is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Mr. Chu is an executive director of Chinese People Holdings Company Limited (stock code: 681), a company listed on the Main Board of the Stock Exchange, since 2008. He is also an independent non-executive director of each of EYANG Holdings (Group) Co., Limited (stock code: 117), Huayu Expressway Group Limited (stock code: 1823), Flyke International Holdings Limited (stock code: 1998) and China Vehicle Components Technology Holdings Limited (stock code: 1269), all the companies are listed on the Main Board of the Stock Exchange, since 2007, 2009, 2010 and 2011 respectively and Telecom Service One Holdings Limited (stock code: 8145), a company listed on the GEM Board of the Stock Exchange, since 2013. During the period from January 2008 to August 2010, he was an independent non-executive director of Sustainable Forest Holdings Limited (formerly known as "Bright Prosperous Holdings Limited") (stock code: 723), a company listed on the Main Board of the Stock Exchange. He was also the company secretary of Sun Century Group Limited (formerly known as "Hong Long Holdings Limited") (stock code: 1383), a company listed on the Main Board of the Stock Exchange, responsible for corporate finance, financial reporting and compliance and company secretarial matters from 2007 to 2010.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Tse Joseph ("Mr. Tse"), aged 40, joined the Company as an independent non-executive Director on 16 August 2012. He is also a member of each of the Audit Committee, the Remuneration Committee and the Special Investigation Committee. Mr. Tse has extensive experiences in finance and accounting. He holds a Bachelor of Commerce-Accounting degree from the University of New South Wales and a Master degree in Financial Management from the University of London. Mr. Tse has worked in several banks such as The Bank of East Asia Limited and The Hongkong and Shanghai Banking Corporation Limited.

SENIOR MANAGEMENT

Ms. So Man Yee ("Ms. So") is the company secretary of the Company. She has over 8 years of experience in accounting and auditing and is a member of the Hong Kong Institute of Certified Public Accountants.

DIRECTORS' REPORT

The Board has pleasure in submitting the Directors' report together with the audited consolidated financial statements of the Group for the year ended 30 June 2014.

PRINCIPAL ACTIVITIES

The Company is an investing holding company. The principal activities of its subsidiaries are set out in note 43 to the consolidated financial statements. There was no significant change in the principal activities of the Company during the year under review.

RESULTS

Details of the Group's results for year ended 30 June 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 40 of this report.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 30 June 2014 (2013: HK$Nil).

FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 120 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 35 to the consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 44 and note 36 to the consolidated financial statements respectively.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVE

The Company did not have any reserves available for distribution to the Shareholders as at 30 June 2014 (2013: HK$Nil).

EVENTS AFTER REPORTING PERIOD

Details of significant events occurred after the reporting period are set out in note 42 to the consolidated financial statements.

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year (2013: approximately HK$296,000).

DIRECTORS

The Directors who held office during the year end up to the date of this report were:

Executive Directors
Mr. Yu *(Chairman)*
Mr. Chan (appointed on 5 August 2014)
Mr. Wang
Mr. Lee
Mr. Wang Xiaofei (resigned on 25 May 2014)

Non-executive Director
Mr. Du Juanhong (resigned on 3 June 2014)

Independent non-executive Directors
Mr. Tam
Mr. Chu
Mr. Tse

In accordance with the bye-laws of the Company (the "Bye-laws"), Mr. Chan Kin Wah Billy shall retire from office at the forthcoming annual general meeting (the "AGM") and Mr. Yu Zhen Hua Johnny and Mr. Tse Joseph shall retire from office by rotation at the AGM. Being eligible, each of Mr. Chan Kin Wah Billy, Mr. Yu Zhen Hua Johnny and Mr. Tse Joseph will offer himself for re-election as executive Director or independent non-executive Director.

All the current non-executive Directors (including the independent non-executive Directors) have been appointed for a term of two years and subject to re-election.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the AGM has a services contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received annual written confirmations from Mr. Tam, Mr. Chu and Mr. Tse, being the independent non-executive Directors during the year under review, in respect of their independence pursuant to the GEM Listing Rules. In addition, based on the information that is publicly available to the Company, the Company was not aware of any change of circumstances which may affect the independence of the independent non-executive Directors. The Company considers all the independent non-executive Directors to be independent during the year ended 30 June 2014.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June 2014, none of the Directors and the chief executive of the Company nor their respective associates 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 SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries, any of its fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

EMOLUMENT POLICY

The emoluments of employees of the Group were determined on the basis of their job responsibilities, work performance, professional experience and prevailing industry practices.

The emoluments of the Directors were determined with reference to their duties and responsibilities with the Company, the Company's performance, prevailing market conditions and the market emoluments for directors of other listed companies and reviewed by the Remuneration Committee.

Details of the emoluments of Directors and employees of the Group are set out in note 12 to the consolidated financial statements.

COMPETING INTERESTS

As at 30 June 2014, none of the directors, substantial shareholders nor any of their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause any significant competition with the business of the Group.

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

As at 30 June 2014, so far as is known to the Directors and the chief executive of the Company, the interests and short positions of the persons or corporations (other than the Directors and the chief executive of the Company) 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; or who was directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group, were as follows:

Long position in ordinary shares of HK$0.1 each of the Company

Name of Shareholder	Nature of interests	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of shareholding
Eternity Investment Limited ("Eternity") (Note 1)	Interest of controlled corporation (Note 1)	—	52,500,000 (Note 1)	52,500,000 (Note 1)	400.09% (Note 2)

DIRECTORS' REPORT

Notes:

1. New Cove is deemed to be interested in 40,000,000 shares through the conversion of the convertible bonds in the principal amount of HK$40,000,000 pursuant to the subscription agreement dated 21 March 2013 entered into between New Cove and the Company. In addition to the 12,500,000 offer shares under the New Cove undertaking of the open offer as announced by the Company on 25 June 2014, New Cove is deemed to be interested in an aggregate of 52,500,000 shares. As New Cove is an indirect wholly-owned subsidiary of Eternity, Eternity is deemed to be interested in such 52,500,000 shares.

2. The percentage is calculated on the basis of 13,122,000 shares of the Company in issue as at 30 June 2014.

Save as disclosed above, as at 30 June 2014, so far as is known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other persons or corporation (other than the Directors and chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or, were directly or indirectly, interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed above, so far as is known to the Directors, there is no other person who has an interest or short position in the shares and underlying shares that is discloseable under Section 336 of the SFO.

SHARE OPTION SCHEMES

On 30 January 2002, the Company adopted a share option scheme (the "Share Option Scheme") for the primary purpose of providing incentives or rewards to the Directors and employees of the Group and to recognize the contribution of such eligible persons to the growth of the Group. The Share Option Scheme expired on 29 January 2012. No further options could thereafter be offered under the Share Option Scheme.

As at 30 June 2014, there was no outstanding option under the Share Option Scheme.

As at the date of this report, the Company did not have any share option scheme.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 38 to the consolidated financial statements.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate purchases attributable to the Group's largest supplier accounted for approximately 54% (2013: approximately 88%) of the Group's total purchase for the year ended and the five largest suppliers taken together accounted for approximately 84% (2013: 100%) of the Group's total purchase for the year.

The five largest customers of the Group in aggregate accounted for less than 30% of the total sales.

None of the Directors, their associates, or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest suppliers and customers.

CONNECTED TRANSACTIONS

For the year under review, there was no connected transaction or continuing connected transactions under the GEM Listing Rules which are required to comply with any of the reporting, announcement, or independent Shareholders' approval requirements thereunder. The material related party transactions were set out in note 41 to the consolidated financial statements of the Company constituted connected transactions but are exempted from the reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CHANGE OF COMPANY SECRETARY

On 9 September 2013, Mr. Lee Chan Wah resigned and Ms. So Man Yee was appointed as the company secretary of the Company.

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

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

MANAGEMENT CONTRACTS

During the year under review, no management and administrative contracts regarding the entire or any major businesses of the Company have been entered into or have existed.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws adopted by the Company on 22 April 2014 and there is no restriction against such rights under the law of the Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Board, as at 18 September 2014, being the latest practicable date prior to the printing of this report, the Company has maintained a sufficient public float of at least 25% of the Company's issued shares.

AUDITORS

HLB Hodgson Impey Cheng Limited retires and being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint the auditors, HLB Hodgson Impey Cheng Limited.

There have been no other changes of auditors in the past three years except for the reorganisation of Messrs HLB Hodgson Impey Cheng to HLB Hodgson Impey Cheng Limited in March 2012.

On behalf of the Board

Yu Zhen Hua Johnny
Chairman

Hong Kong, 18 September 2014

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange issued the Corporate Governance Code and Corporate Governance Report (the "CG Code and Report") contained in Appendix 15 of the GEM Listing Rules which sets out the principles and the code provisions which listed issuers are expected to apply and comply.

Pursuant to the Stock Exchange letter dated 13 July 2012 to the Company, the Stock Exchange had questioned whether the Company has adequate financial reporting procedures and internal control systems to meet its obligations under the GEM Listing Rules before resumption of trading. In view of the above, the Company had appointed ZHONGLEI Risk Advisory Services Limited ("ZHONGLEI") to perform a review ("Review") and follow-up review (the "Follow-Up Review") of the procedures, systems and controls (including accounting and management systems) of the Company and its subsidiaries (collectively known as the "Group"). A report of the Review was issued on 16 April 2013 in which recommendations were made by ZHONGLEI to the management of the Company for the enhancement of the internal controls of the Group in accordance with the deficiencies identified in the relevant financial procedures, systems and internal controls of the Group. A report of the Follow-Up Review was issued by ZHONGLEI on 5 September 2013 in which ZHONGLEI had followed up the progress of the procedures implemented by the management to enhance and improve the financial reporting procedures and internal control system. As disclosed in the Company's announcement dated 11 April 2014, on 18 February 2014, the Company received a written confirmation from ZHONGLEI to confirm that during the course of their review of the Company's internal control procedures, nothing has come to their attention to indicate that the Group had significant deficiency for its internal control procedures as of 5 September 2013.

During the year under review and up to the date of this report, the Company has applied the principles as set out in the CG Code and Report that are considered to be relevant to the Company and has complied with most of the code provisions of the CG Code and Report save for certain deviations, details of which will be explained in the relevant paragraphs in this report.

The key corporate governance principles and practices of the Company are summarised as follows:

SECURITIES TRANSACTIONS BY DIRECTORS

During the year under review, the Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, all Directors have confirmed that they have complied with such code of conduct and the required standard of dealings on Directors' securities transactions. In addition, based on the information that is publicly available to the Company, the Company was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions by Directors.

CORPORATE GOVERNANCE REPORT

Code provision A.6.4 of the CG Code and Report stipulates that the board should establish written guidelines no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers for relevant employees in respect of their dealings in the Company's securities. On 23 August 2013, the Board adopted the "Code for Securities Transactions for Directors" and "Code for Securities Transactions for Relevant Employees" to comply with the code provision.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibilities for decision making in all major matters of the Company include approving and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transaction, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities.

Code provisions D.1.1, D.1.2 and D.1.3 of the CG Code and Report stipulate that the board must give clear directions as to the powers of management, formalize the functions reserved to the board and those delegated to management and disclose the respective responsibilities, accountabilities and contributions of the board and management respectively. On 23 August 2013, the Board adopted the statements of "Board and Management Functions" and the "Delegated Authority Policy" to comply with these code provisions.

Corporate governance functions

Code provisions D.3.1 of the CG Code and Report stipulates that the terms of reference of the board (or a committee or committees performing this function) should include at least the duties specified in the CG Code and Report. On 23 August 2013, the Board adopted the "Terms of Reference - Board of Directors" to comply with the code provision.

CORPORATE GOVERNANCE REPORT

Composition

As at the date of this report, the Board comprises seven Directors and their respective roles are set out as follows:

Executive Directors
Mr. Yu *(Chairman and Managing Director)*
Mr. Chan (appointed on 5 August 2014)
Mr. Wang
Mr. Lee

Independent non-executive Directors
Mr. Tam
Mr. Chu
Mr. Tse

One of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise.

The Board members have no financial, business, family or other material/relevant relationship with each other.

Biographical details of the Directors are set out in the section of Directors and Senior Management Profile on pages 18 to 20 of this report.

The Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. All the directors have given sufficient time and attention to the Company's affairs. The Board believes that the ratio of executive Directors to non-executive Directors is reasonable and adequate to provide checks and balances that safeguard the interest of the Shareholders and the Company as a whole.

Pursuant to the code provision A.1.8 of the CG Code and Report, the Company should arrange appropriate insurance to cover potential legal actions against its directors. The Company is still arranging for appropriate liability insurance for the Directors for indemnifying their liabilities arising from corporate activities.

Appointments, re-election and removal

The Board has established a nomination committee on 27 March 2012 with details set out in the section of "Nomination Committee" on page 32 of this report.

According to the Bye-laws, the Board may from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Meetings

The Board regularly meets in person or through other electronic means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. Code provision A.1.3 of the CG Code and Report stipulates that notice of at least 14 days should be given to all Directors of a regular Board meeting. All Directors are given an opportunity to attend and include matters in the agenda for discussion. During the year under review, at least 14 days' notice are given to all Directors of a regular board meeting in order to comply with the code provision.

Apart from regular meetings, senior management from time to time provides Directors information on activities and development of the businesses of the Group. The company secretary takes detailed minutes of the meetings and keeps records of matters discussed and decision resolved at the meetings. Individual attendance records of each Director at the respective Board and committee meetings are set out in the table on page 33 of this report.

Directors' Training

Pursuant to code provision A.6.5 of the CG Code and Report, which has same into effect 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 by attending training course on the topics related to corporate governance and regulations.

CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the CG Code and Report stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual.

Ms. Keung Wai Fun, Samantha resigned as the chief executive officer of the Company with effect from 7 March 2012. Since then, the position of chief executive officer remains vacant.

Due to practical necessity of the Group's corporate operating structure, the roles of the Chairman and the chief executive officer are both performed by Mr. Yu who is the Chairman and managing Director overseeing the operation and management of the Group. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company.

The Company is looking for a suitable candidate to fill the vacancy in order to comply with the CG Code and Report.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Code provision A.4.1 of the CG Code and Report stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

During the year under review, all non-executive Directors (including the independent non-executive Directors) have been appointed for a term of two years and subject to re-election.

During the year under review, the Company has received annual written confirmations from Mr. Tam, Mr. Chu and Mr. Tse, being the independent non-executive Directors, in respect of their independence pursuant to the GEM Listing Rules. In addition, based on the information that is publicly available to the Company, the Company was not aware of any change of circumstances which may affect the independence of the independent non-executive Directors. The Company considers the independent non-executive Directors to be independent.

BOARD COMMITTEE

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Remuneration Committee include making recommendation to the Board on the Group's policies and structure for all remuneration of Directors and senior management, determining specific remuneration packages of all executive Directors and senior management, and reviewing and approving performance-based remuneration.

As at 30 June 2014 and up to the date of this report, the Remuneration Committee comprises two independent non-executive Directors, namely Mr. Chu (chairman of the committee) and Mr. Tse and one executive Director, namely, Mr. Yu.

The Remuneration Committee did not hold any meeting during the year ended 30 June 2014.

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Nomination Committee include reviewing the structure, size and composition of the Board, identification of individuals suitably qualified to become Board members and making recommendations to the Board on the selection of individuals nominated for directorships, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

As at 30 June 2014 and up to the date of this report, the Nomination Committee consists of two independent non-executive Directors, namely Mr. Chu (chairman of the committee) and Mr. Tam and one executive Director, namely, Mr. Yu.

The Nomination Committee did not hold any meeting during the year ended 30 June 2014.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Audit Committee include reviewing the financial statements and reports and considering any significant or unusual items raised by the compliance officer or external auditors before submission to the Board, reviewing the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and making recommendation to the Board on the appointment, re-appointment and removal of external auditors and reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

As at 30 June 2014, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Chu (chairman of the committee), Mr. Tam and Mr. Tse.

The Audit Committee held 4 meetings during the year ended 30 June 2014, to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes as well as the re-appointment of the external auditors.

The Audit Committee has reviewed the audited consolidated annual results for the year ended 30 June 2014 and provided advice and comments thereon.

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

Details of the attendance of the Directors at the meeting of the Board and its respective committees during the year ended 30 June 2014 are as follows:

Name of Director	Board Meeting Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meeting Attended/ Eligible to attend	Annual General Meeting Attended/ Eligible to Attend	Extraordinary General Meeting Attended/ Eligible to attend
Executive Directors						
Mr. Yu	22/22	—	—	—	1/1	2/2
Mr. Wang Xiaofei (resigned on 25 May 2014)	15/19	—	—	—	1/1	0/2
Mr. Wang	21/22	—	—	—	1/1	2/2
Mr. Lee	22/22	4/4	—	—	1/1	2/2
Non-executive Director						
Mr. Du Juanhong (resigned on 3 June 2014)	5/21	—	—	—	0/1	0/2
Independent Non-executive Directors						
Mr. Tam	22/22	4/4	—	—	1/1	1/2
Mr. Chu	22/22	4/4	—	—	1/1	0/2
Mr. Tse	22/22	4/4	—	—	1/1	1/2

AUDITORS' REMUNERATION

The remuneration in respect of the services provided by the Company's external auditor, HLB Hodgson Impey Cheng Limited, is analysed as follows:

	2014	2013
	HK$'000	*HK$'000*
Services rendered:		
Audit services	**620**	1,030
Other services	**1,516**	Nil

FINANCIAL REPORTING

Code provision C.1.2 of the CG Code and Report stipulates that management should provide all members of the Board with monthly updates giving balanced and understandable assessment of the Company's performance, position and prospects in sufficient details. In accordance with the findings of the Follow-Up Review Report, started from August 2013, all members of the Board are provided with monthly consolidated financial statements giving balanced and understandable assessment of the Company's performance, position and prospects in sufficient details.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Group. The auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the Shareholders.

INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the Shareholders and the assets of the Company.

After the issue of the Review report on 16 April 2013 by ZHONGLEI, the management of the Company had implemented procedures to address the deficiencies found in the internal control system of the Group. A Follow-Up Review report was issued by ZHONGLEI dated 5 September 2013, pursuant to which a majority of the deficiencies identified by ZHONGLEI in the Review report had been improved.

As disclosed in the Company's announcement dated 11 April 2014, on 18 January 2014, the Company received a written confirmation from ZHONGLEI to confirm that during the course of their review of the Company's internal control procedures, nothing has come to indicate that the Group had significant deficiency for its internal control procedures as of 5 September 2013.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Annual report, interim report and quarterly reports offer comprehensive information to the Shareholders on operational and financial performance whereas annual general meetings provide a forum for the Shareholders to exchange views directly with the Board. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. The Chairman and a member of the Audit Committee attended the 2013 annual general meeting to answer questions.

According to the Bye-laws, 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 meeting of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be lodged with the Company's principal place of business in Hong Kong.

As regards proposing a person for election as a Director, please refer to the procedures as set out in (i) the Bye-laws available on the websites of the Company and the Stock Exchange; and (ii) the guidelines entitled "Procedures for Shareholders to propose a person for election as a Director" on the website of the Company.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's registered office in Hong Kong at Unit 3811, 38/F., Shun Tak Centre, West Tower, 168–200 Connaught Road Central, Central, Hong Kong.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings.

Code provision E.1.4 of the CG Code and Report stipulates the board should establish a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. On 23 August 2013, the Board adopted the "Shareholders Communication Policy" to comply with the code provision.

INDEPENDENT AUDITORS' REPORT

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EDS WELLNESS HOLDINGS LIMITED

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of EDS Wellness Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 40 to 119, which comprise the consolidated and company statements of financial position at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. Because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

INDEPENDENT AUDITORS' REPORT

BASIS FOR DISCLAIMER OF OPINION

(1) Investment in Unconsolidated Subsidiaries

As further explained in note 2 to the consolidated financial statements, the directors of the Company are unable to obtain complete books and records of Blu Spa (Hong Kong) Limited ("**BSHK**") and its subsidiaries (the "**BSHK Group**"), Blu Spa International Limited and Blu Spa Management Services Limited (collectively referred to as the "**Unconsolidated Subsidiaries**") of which the Company made an announcement dated 19 February 2013 that written resolutions were passed by the sole director of BSHK, among other things, to voluntarily wind-up BSHK and the notice of appointment of joint and several liquidators were published on the government gazette on 26 February 2013. The Company further made an announcement dated 9 April 2013 regarding the result of the Company's engagement of an independent professional firm to investigate and comment on the reasons of the resignation of the former auditors of the Group and the basis for disclaimer of opinion in respect of the Group's consolidated financial statements for the year ended 30 June 2011 (the "**Forensic Investigation**") and the findings of the Forensic Investigation indicate that there were possible irregularities in respect of a considerable number of past transactions and possible misstatements of certain transactions and balances recorded in the books and records of the Group which mainly concern the Group's operation involving the BSHK Group. Due to lack of complete books and records of the Unconsolidated Subsidiaries, the financial statements of the Unconsolidated Subsidiaries have not been consolidated into the Group's consolidated financial statements for the year ended 30 June 2014.

Due to lack of complete books and records of the Unconsolidated Subsidiaries mentioned above, we are unable to ascertain the impact of the potential irregularities with respect to the accounting records and transactions of the Unconsolidated Subsidiaries, if any, and the de-consolidation of the Unconsolidated Subsidiaries on the consolidated financial statements. We have also not been able to obtain sufficient appropriate audit evidence and explanations to determine whether the carrying amounts of the investments in the Unconsolidated Subsidiaries were free from material misstatements. Any adjustments that might have been found to be necessary would have a consequential significant effect on the net assets of the Group at 30 June 2014 and the loss and cash flows of the Group for the year ended 30 June 2014.

BASIS FOR DISCLAIMER OF OPINION (Continued)

(2) Balances with the Unconsolidated Subsidiaries

As further explained in note 2 to the consolidated financial statements, the Group and the Company had a total amounts due from the Unconsolidated Subsidiaries of approximately HK$241,426,000 and HK$238,462,000 respectively at 30 June 2014 of which impairment losses of HK$80,000 was recognised during the year and recorded accumulated impairment losses of approximately HK$241,426,000 and HK$238,462,000 respectively. In addition, the Group recorded amounts due to the Unconsolidated Subsidiaries of approximately HK$1,309,000 at 30 June 2014.

Due to lack of complete books and records of the Unconsolidated Subsidiaries, we have not been able to obtain sufficient appropriate audit evidence to determine whether the amounts due from and due to the Unconsolidated Subsidiaries (together, "**Balances with the Unconsolidated Subsidiaries**") and the impairment losses recognised on the amounts due from the Unconsolidated Subsidiaries to the Group and the Company are free from material misstatements. Any adjustments that might have been found to be necessary would have a consequential significant effect on the net assets of the Group and the Company at 30 June 2014 and the loss of the Group and the Company for the year ended 30 June 2014.

(3) Other receivable

Included in "Deposits, prepayments and other receivables" in the consolidated and the Company statements of financial position at 30 June 2014 was other receivable of approximately HK$46,329,000 (the "**Other Receivable**") due from a debtor (the "**Debtor**"). As further explained in note 23 to the consolidated financial statements, the Debtor defaulted the repayment of the Other Receivable and the Company has taken legal actions against the Debtor. Up to the date of this report, the legal actions against the Debtor is still in progress, no settlement of the Other Receivable was made by the Debtor. The directors of the Company consider that the Other Receivable will be recoverable from the Debtor, no impairment loss was recognised for the Other Receivable for the year ended 30 June 2014. We were unable to obtain sufficient appropriate audit evidence regarding to the valuation of the Other Receivable and there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Other Receivable was free from material misstatement. Any adjustments that might have been found to be necessary would have a consequential significant effect on the net assets of the Group and the Company at 30 June 2014 and the loss of the Group and the Company for the year ended 30 June 2014.

INDEPENDENT AUDITORS' REPORT

BASIS FOR DISCLAIMER OF OPINION (Continued)

(4) Opening balances and corresponding figures

The opening balances and corresponding figures disclosed in the consolidated financial statements are based on the audited financial statements of the Group and the Company for the year ended 30 June 2013 in respect of which our audit opinion dated 6 September 2013 expressed a disclaimer opinion. The matters which resulted in that the disclaimer opinion included (1) investments in unconsolidated subsidiaries, (2) balances with the Unconsolidated Subsidiaries, (3) Other Receivable and (4) impairment loss of investment costs and balances due from the subsidiaries other than the Unconsolidated Subsidiaries, (5) opening balances and corresponding figures and (6) going concern basis of accounting. Therefore, the opening balances and corresponding figures shown may not be comparable and any adjustments to the opening balances at 1 July 2013 would have consequential effect on the loss for the year ended 30 June 2014 and/or the net assets of the Group and the Company at 30 June 2014.

DISCLAIMER OF OPINION

Because of the significance of matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Yu Chi Fat
Practising Certificate Number: P05467

Hong Kong, 18 September 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Notes	2014 HK$'000	2013 HK$'000
Turnover	8	**27,582**	8,140
Cost of sales		**(16,597)**	(11,686)
Gross profit/(loss)		**10,985**	(3,546)
Other income	10	**4,949**	9,121
Selling and distribution costs		**(996)**	(2,292)
Administrative expenses		**(18,325)**	(21,848)
Impairment loss recognised in respect of deposits, prepayments and other receivables	23	**(80)**	(1,254)
Finance costs	11	**(6,664)**	(3,749)
Loss before tax	13	**(10,131)**	(23,568)
Income tax expense	14	**(487)**	—
Loss for the year		**(10,618)**	(23,568)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**1**	9
Other comprehensive income for the year		**1**	9
Total comprehensive expenses for the year		**(10,617)**	(23,559)
Loss for the year attributable to:			
Owners of the Company		**(11,768)**	(23,568)
Non-controlling interests		**1,150**	—
		(10,618)	(23,568)
Total comprehensive expenses for the year attributable to:			
Owners of the Company		**(11,767)**	(23,559)
Non-controlling interests		**1,150**	—
		(10,617)	(23,559)
			(Restated)
Loss per share (HK cents)	16		
— Basic and diluted		**(89.68)**	(179.62)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	**2014** **HK$'000**	2013 HK$'000
Non-current assets			
Intangible asset	17	**—**	—
Goodwill	18	**18,266**	—
Property, plant and equipment	19	**14,846**	8,301
Restricted bank deposit	24	**7,147**	—
		40,259	8,301
Current assets			
Inventories	21	**2,614**	1,137
Trade receivables	22	**5,238**	646
Deposits, prepayments and other receivables	23	**50,614**	41,932
Bank balances and cash	24	**43,149**	1,815
		101,615	45,530
Current liabilities			
Amount due to a former director	25	**64**	64
Trade payables	26	**399**	—
Deposits from customers	27	**94**	455
Deferred revenue	28	**21,869**	—
Accruals and other payables	29	**10,185**	8,831
Obligation under finance leases	30	**588**	43
Other borrowings	31	**1,833**	42,400
Promissory notes	32	**12,718**	—
Tax payables		**613**	—
		48,363	51,793
Net current assets/(liabilities)		**53,252**	(6,263)
Total assets less current liabilities		**93,511**	2,038

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Obligation under finance leases	30	**160**	124
Other borrowings	31	**61,000**	—
Convertible bonds	33	**29,712**	—
Deferred tax liabilities	34	**1,697**	—
		92,569	124
Net assets		**942**	1,914
Capital and reserves			
Share capital	35	**1,312**	131,220
Reserves		**(2,231)**	(129,306)
Equity attributable to owners of the Company		**(919)**	1,914
Non-controlling interests		**1,861**	—
Total equity		**942**	1,914

Approved and authorised for issue by the Board of Directors on 18 September 2014 and are signed on its behalf by:

Yu Zhen Hua Johnny
Director

Lee Chan Wah
Director

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

STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	19	**8**	9
Interests in subsidiaries	20	**42,471**	28,180
		42,479	28,189
Current assets			
Deposits, prepayments and other receivables	23	**46,492**	40,438
Bank balances and cash	24	**23,355**	179
		69,847	40,617
Current liabilities			
Amount due to a former director	25	**64**	64
Accruals and other payables	29	**6,266**	6,626
Other borrowings	31	**433**	42,400
Promissory notes	32	**12,718**	—
		19,481	49,090
Net current assets/(liabilities)		**50,366**	(8,473)
Total assets less current liabilities		**92,845**	19,716
Non-current liabilities			
Other borrowings	31	**61,000**	—
Convertible bonds	33	**29,712**	—
Deferred tax liabilities	34	**1,697**	—
		92,409	—
Net assets		**436**	19,716
Capital and reserves			
Share capital	35	**1,312**	131,220
Reserves	36	**(876)**	(111,504)
Total equity		**436**	19,716

Approved and authorised for issue by the Board of Directors on 18 September 2014 and are signed on its behalf by:

Yu Zhen Hua Johnny	**Lee Chan Wah**
Director	*Director*

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	Share capital	Share premium	Merger reserve	Contributed surplus	Convertible bonds reserve	Translation reserve	Accumulated losses	Sub-total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 1)	(Note 2)	(Note 3)	(Note 4)				
At 1 July 2012	131,220	175,357	22,734	—	—	—	(303,838)	25,473	—	25,473
Loss for the year	—	—	—	—	—	—	(23,568)	(23,568)	—	(23,568)
Other comprehensive income for the year:										
Exchange differences on translating foreign operations	—	—	—	—	—	9	—	9	—	9
Total comprehensive expenses for the year	—	—	—	—	—	9	(23,568)	(23,559)	—	(23,559)
At 30 June 2013 and 1 July 2013	131,220	175,357	22,734	—	—	9	(327,406)	1,914	—	1,914
Loss for the year	—	—	—	—	—	—	(11,768)	(11,768)	1,150	(10,618)
Other comprehensive income for the year:										
Exchange differences on translating foreign operations	—	—	—	—	—	1	—	1	—	1
Total comprehensive expenses for the year	—	—	—	—	—	1	(11,768)	(11,767)	1,150	(10,617)
Non-controlling interests arising on the acquisition of a subsidiary (note 37)	—	—	—	—	—	—	—	—	711	711
Capital reduction	(129,908)	—	—	129,908	—	—	—	—	—	—
Share premium cancellation	—	(175,357)	—	175,357	—	—	—	—	—	—
Amount transfer from contributed surplus to accumulated losses	—	—	—	(278,124)	—	—	278,124	—	—	—
Recognition of the equity component of convertible bonds	—	—	—	—	10,699	—	—	10,699	—	10,699
Deferred tax on convertible bonds	—	—	—	—	(1,765)	—	—	(1,765)	—	(1,765)
At 30 June 2014	1,312	—	22,734	27,141	8,934	10	(61,050)	(919)	1,861	942

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

Notes:

1) **Merger reserve**

The merger reserve of the Group represents the differences between the carrying amount of the share capital and share premium of Blu Spa Group Limited at the date on which it was acquired by the Company and the nominal amount of the Company's share issued in exchange pursuant to the group reorganisation.

2) **Contributed surplus**

Pursuant to the Company Act 1981 of Bermuda and the special resolution passed at the extraordinary general meeting, transfer a sum of approximately HK$175,357,000 from share premium account to the contributed surplus account was approved. The Directors further approved to transfer a sum of approximately HK278,124,000 from contributed surplus account to accumulated losses account for the purpose of setting off against the accumulated losses.

3) **Convertible bonds reserve**

The convertible bonds reserve represents the value of the unexercised equity component of convertible bonds issued by the Company.

4) **Translation reserve**

Exchange differences arising from the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	Note	2014 HK$'000	2013 HK$'000
Operating activities			
Loss before tax:		**(10,131)**	(23,568)
Adjustments for:			
Interest income		**(4,749)**	(4,553)
Interest expenses		**6,664**	3,749
Gain on defaulted payment of the refundable deposit		**—**	(4,500)
Gain on disposal of property, plant and equipment		**(183)**	(53)
Depreciation on property, plant and equipment		**2,724**	1,571
Loss on disposal of property, plant and equipment		**1,816**	122
Written down of property, plant and equipment		**8**	1,145
Written off of deposits, prepayments and other receivables		**6**	192
Written off of inventories		**6**	—
Written off of trade receivables		**2**	—
Impairment loss recognised in respect of deposits, prepayments and other receivables		**80**	1,254
Operating cash flows before movements in working capital		**(3,757)**	(24,641)
(Increase)/decrease in inventories		**(854)**	806
Increase in trade receivables		**(1,171)**	(421)
(Increase)/decrease in deposits, prepayments and other receivables		**(884)**	13,168
Increase in trade payables		**236**	—
Decrease in deposits from customers		**(364)**	(96)
Increase in deferred revenue		**859**	—
Increase/(decrease) in accruals and other payables		**462**	(2,619)
Cash used in operating activities		**(5,473)**	(13,803)
Interest paid		**(5,494)**	(3,749)
Net cash used in operating activities		**(10,967)**	(17,552)
Investing activities			
Net cash outflow on acquisition of a subsidiary	37	**(2,663)**	—
Proceeds from disposal of property, plant and equipment		**726**	1,814
Purchases of property, plant and equipment		**(4,108)**	(9,744)
Interest received		**16**	4,553
Net cash used in investing activities		**(6,029)**	(3,377)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	2014	2013
	HK$'000	*HK$'000*
Financing activities		
Proceeds from other borrowings	**72,500**	24,905
Repayment of other borrowings	**(53,900)**	(2,091)
Proceed from issue of convertible bonds	**40,000**	—
Proceed from obligation under finance leases	**—**	150
Repayment of obligation under finance leases	**(271)**	(537)
Net cash generated from financing activities	**58,329**	22,427
Net increase in cash and cash equivalents	**41,333**	1,498
Cash and cash equivalents at 1 July	**1,815**	308
Effect of foreign exchange rate changes	**1**	9
Cash and cash equivalents at 30 June	**43,149**	1,815
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**43,149**	1,815

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands and with effect from 22 April 2014, the Company deregistered in the Cayman Islands and continued in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company in Hong Kong are disclosed in the company information section of the annual report.

The consolidated and company financial statements are presented in units of thousands of Hong Kong dollars (HK$'000), unless otherwise stated, which is the same as the functional currency of the Company.

The Company is an investment holding company and the principal activities of its subsidiaries are disclosed in note 43.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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 HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong except for non-consolidation of certain subsidiaries of the Group as explained below. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and the disclosure requirements of the Hong Kong Companies Ordinance.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements in determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 and measurement 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. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (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 asset or liability.

Investments in unconsolidated subsidiaries

The consolidated financial statements for the year ended 30 June 2014 were prepared based on the books and records maintained by the Company and its subsidiaries. However, the directors and management of certain subsidiaries of the Company, namely, Blu Spa (Hong Kong) Limited ("BSHK") and its subsidiaries (the "BSHK Group"), Blu Spa International Limited and Blu Spa Management Services Limited (together, "Unconsolidated Subsidiaries") for the year ended 30 June 2014, have not provided complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken. The Directors have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments in respect of those transactions for the year ended 30 June 2014.

On 19 February 2013, the Board announced that the sole director of BSHK proposed to voluntarily wind-up BSHK and appointed Messrs. Osman Mohammed Arab and Wong Kwok Keung as joint and several provisional liquidators. The notice of appointment of joint and several liquidators were published on the government gazette on 26 February 2013. Upon the appointment of the liquidators, the assets of BSHK will be realised, where possible and appropriate. The estimated loss to the Group arising from the winding-up of BSHK will be approximately HK$1.2 million. Details of which were set out in the Company's announcement dated 19 February 2013.

As set out in the Company's announcement dated 9 April 2013, regarding the result of the Company's engagement of an independent professional firm to investigate and comment on the reasons of the resignation of the former auditors of the Group and the basis for disclaimer of opinion in respect of the Group's consolidated financial statements for the year ended 30 June 2011 (the "Forensic Investigation") and the findings of the Forensic Investigation indicate that there were possible irregularities in respect of a considerable number of past transactions and possible misstatements of certain transactions and balances recorded in the books and records of the Group which mainly concern the Group's operation involving the BSHK Group.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

Investments in unconsolidated subsidiaries (Continued)

Given these circumstances, the Directors have not consolidated the financial statements of the Unconsolidated Subsidiaries in these consolidated financial statements. As such, the results, assets and liabilities of the Unconsolidated Subsidiaries have not been included into the consolidated financial statements of the Group since 1 July 2011. At 30 June 2014, the amounts due from the Unconsolidated Subsidiaries to the Group and the Company of approximately HK$241,426,000 and HK$238,462,000 respectively of which impairment loss of HK$80,000 was recognised during the year and recorded accumulated impairment losses of approximately HK$241,426,000 and HK$238,462,000 respectively. In addition, the Group recorded amounts due to the Unconsolidated Subsidiaries of approximately HK$1,309,000 at 30 June 2014.

In the opinion of the Directors, these consolidated financial statements for the year ended 30 June 2014 and 30 June 2013 are prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid incomplete books and records of the Unconsolidated Subsidiaries and result of the Forensic Investigation.

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

In the current year, the Group has applied for the first time, the following new and revised standards and interpretations issued by the HKICPA (collectively referred to as the "new and revised HKFRSs"), which are effective for the Group's financial year beginning on 1 July 2013. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 Cycle
HKFRS 1 (Amendments)	Amendments to HKFRS 1 First Time Adoption of Hong Kong Financial Reporting Standards — Government Loans
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The Group has early applied HKAS 36 (Amendments) Recoverable Amount Disclosures for Non-Financial Assets, which is effective for annual periods of the Group beginning on or after 1 July 2014.

The amendments to HKAS 36 remove the requirement to disclosure the recoverable amount of a cash generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal. The early application of amendments to HKAS 36 removes the requirement to disclose the recoverable amounts of individual asset mentioned above. Other than the additional disclosures by application of HKAS 36, the application of HKAS 36 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities*

The Group has applied the amendments to HKFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

(a) recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*; and

(b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

As the Group does not have any offsetting arrangements or any master netting agreements in place, the application of the amendments has no material impact on the disclosures or on the amounts recognised in these consolidated financial statements.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 Consolidated Financial Statements, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) — Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over and investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee is relevant to the Group.

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) — Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements - joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to assets, and obligations for the liabilities, relating to arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements - jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures (Continued)

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

Other than the additional disclosures by application of HKFRS 12, the application of HKFRS 10 and HKFRS 11 has not had any material impact on the amounts recognised in the consolidated financial statements.

HKFRS 13 *Fair Value Measurement*

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosures requirements.

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2013 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009–2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 July 2013. Amendments to HKFRSs include:

— amendments to HKAS 16 *Property, Plant and Equipment*; and

— amendments to HKAS 32 *Financial Instruments*: *Presentation*.

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

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012 (Continued)

Amendments to HKAS 16

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The Directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to HKAS 32

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The Directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Save as described above, the application of the above new and revised HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[4]
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions[2]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[1]
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011–2013 Cycle[2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10, HKFRS 12 and HKAS 27 (Revised in 2011) (Amendments)	Investment Entities[1]
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operations[4]
HKFRS 14	Regulatory Deferral Accounts[4]
HKFRS 15	Revenue from Contracts with Customers[5]
HK(IFRIC) — Int 21	Levies[1]

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

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
4 Effective for annual periods beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after 1 January 2017
6 Effective for annual periods beginning on or after 1 January 2018

HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

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

With regard to the measurement of financial liabilities designated as of fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The Directors anticipate that the application of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

HKFRS 9 *Financial Instruments* (Continued)

Save as described above, the Group is in the process of assessing the potential impact of these new and revised HKFRSs but is not yet in a position to determine whether these new and revised HFKRSs will have a significant impact on how its results of operations and financial position are prepared and presented. These new and revised HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below.

(a) Basis of consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expenses as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Business combinations *(Continued)*

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss and other comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions - that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars (HK$), which is the Company's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss and other comprehensive income within "finance cost". All other foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income within "other income", "cost of sales" or "administrative expenses".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment (Continued)

Depreciation on property, plant and equipment are calculated using straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Type	Basis
Plant and machinery	20%
Leasehold improvement	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss and other comprehensive income.

(d) Intangible asset

Trademark

Trademark is shown at historical cost and has a finite useful life and is carried at cost less accumulated amortisation and less any identified impairment loss. Amortisation is calculated using the straight-line method to allocate the cost of trademark over its estimated useful lives of 20 years.

(e) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group classifies its financial assets into loan and receivables. 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. The accounting policies adopted in respect of such category of financial assets are set out below.

Loans and receivables

Loans and receivables (including restricted bank deposit, trade receivables, deposits and other receivables and bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. Loans and receivables are measured at amortised cost using the effective interest method, less any identified impairment losses.

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.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where 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.

Objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty; or

(ii) breach of contract, such as a default or delinquency in interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

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

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, 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 is 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 the financial asset 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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.

Financial liabilities and equity instruments

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.

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Convertible bonds (Continued)

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Other financial liabilities

Other financial liabilities (including amount due to a former director, trade payables, accruals and other payables, obligation under finance leases, other borrowings, promissory notes and convertible bonds) 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 fair value through profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expires, 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 collateralised borrowing for the proceeds received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Derecognition (Continued)

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.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for inventories when they became obsolete.

(h) Trade and other receivables

Trade receivables are amounts due from customers for merchandises sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(i) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(k) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognises when it is probable that future economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from sales of beauty products and beauty equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the beauty products and beauty equipment are delivered to customers. Revenue is shown net of value-add tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenue from interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Revenue from service income is recognised when service are provided. Payments that are related to service not yet rendered are shown as deposits from customers and deferred revenue in the consolidated statement of financial position.

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

(n) Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxation profit differs from profit before tax as reported in consolidated statement 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Taxation (Continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition 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 each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Taxation (Continued)

Current and deferred tax for the year

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

(o) Leasing

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

The Group as 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. 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.

(p) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Borrowing costs (Continued)

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

(q) Retirement benefits costs

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

(r) Provisions

Provisions are recognised when the Group has a present obligation 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. Where 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.

(s) Related parties

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

(1) has control or joint control of the Group;

(2) has significant influence over the Group; or

(3) 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:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties (Continued)

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

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) 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).

Close family members of the family or of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Contingent liabilities and assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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.

Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Useful lives of property, plant and equipment

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

Impairment loss of trade and other receivables

The policy for impairment loss recognised in respect of trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Impairment loss of intangible asset

The Group performs annual tests on whether there has been impairment of intangible asset in accordance with the accounting policy stated in note 4(e). The recoverable amount is determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

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

Critical judgments in applying accounting policies (Continued)

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The directors reassess the estimations at the end of reporting period.

Fair value of contingent consideration arising from business combination

Contingent consideration arising from business combination is valued using a discounted cash flow model, based on the estimated compensation received by the Group, discounted using the applicable prevailing market rate. The estimation of the compensation is based on the estimated profits of China Honest Enterprises Limited ("China Honest"), a 51% owned subsidiary of the Company.

Impairment loss of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4(a). The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates (note 18).

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$000*
Financial assets				
Loans and receivables (including bank balances and cash)	**105,739**	44,122	**112,152**	68,563
Financial liabilities				
Amortised cost	**116,659**	51,462	**110,193**	49,090

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include amount due from subsidiaries, trade receivables, deposits and other receivables, bank balances and cash, amount due to a former director, trade payables, accruals and other payables, other borrowings, obligation under finance leases, promissory notes and convertible bonds. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures closely to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Group's and the Company's risk exposure relating to financial instruments or the manner in which it manages and measures the risks.

Market risk

(i) Currency risk

For the year ended 30 June 2014 and 30 June 2013, the Group and the Company mainly operates in Hong Kong and no material foreign currency risk. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations which are denominated in a currency that is not the entity's functional currency. The Group currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. The Group will monitor its foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group and the Company has no significant interest bearing financial instruments except bank balances, other receivables and other borrowings. Details of the financial instruments are disclosed in respective notes. The Group and the Company currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposures should the need arise.

Sensitivity analysis
If floating rates had been 5% higher/lower, the Group's:

- Loss before tax for the year ended 30 June 2014 would be increase/decrease by approximately HK$1,000 (2013: HK$Nil).

- No impact to the other component of equity for the year ended 30 June 2014 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

6. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

At 30 June 2014, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from deposits and other receivables.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significant reduced.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

6. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and other borrowing facilities, by continuously monitoring forecast and actual cash flows, carrying out fund raising activities and matching the maturity profiles of financial assets and liabilities. The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Less than 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000	Total un-discounted cash flows HK$'000	Total carrying amount HK$'000
The Group						
At 30 June 2014						
Amount due to a former director	**—**	**64**	**—**	**—**	**64**	**64**
Trade payables	**—**	**399**	**—**	**—**	**399**	**399**
Accruals and other payables	**—**	**10,185**	**—**	**—**	**10,185**	**10,185**
Obligation under finance leases	**3%**	**675**	**181**	**—**	**856**	**748**
Other borrowings	**5%**	**5,317**	**66,664**	**—**	**71,981**	**62,833**
Promissory notes	**—**	**13,420**	**—**	**—**	**13,420**	**12,718**
Convertible bonds	**—**	**—**	**40,000**	**—**	**40,000**	**29,712**
		30,060	**106,845**	**—**	**136,905**	**116,659**
At 30 June 2013						
Amount due to a former director	—	64	—	—	64	64
Accruals and other payables	—	8,831	—	—	8,831	8,831
Obligation under finance leases	3.25%	51	132	—	183	167
Other borrowing	12%	47,488	—	—	47,488	42,400
		56,434	132	—	56,566	51,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

6. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Less than 1 year *HK$'000*	Between 1 and 5 years *HK$'000*	Over 5 years *HK$'000*	Total un-discounted cash flows *HK$'000*	Total carrying amount *HK$'000*
The Company						
At 30 June 2014						
Amount due to a former director	**—**	**64**	**—**	**—**	**64**	**64**
Accruals and other payables	**—**	**6,266**	**—**	**—**	**6,266**	**6,266**
Other borrowings	**5%**	**3,917**	**66,664**	**—**	**70,581**	**61,433**
Promissory notes	**—**	**13,420**	**—**	**—**	**13,420**	**12,718**
Convertible bonds	**—**	**—**	**40,000**	**—**	**40,000**	**29,712**
		23,667	**106,664**	**—**	**130,331**	**110,193**
At 30 June 2013						
Accruals and other payables	—	6,626	—	—	6,626	6,626
Other borrowing	12%	47,488	—	—	47,488	42,400
Amount due to a former director	—	64	—	—	64	64
		54,178	—	—	54,178	49,090

(c) Fair value of financial instruments

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

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair values of derivative instruments are determined based on the quoted prices provided by the securities' broker; and

- 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 using the estimated future cash flows and the current market rate of return.

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value of financial instruments (Continued)

Except for the promissory notes and the liability component of convertible bonds, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	2014		2013	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	***HK$'000***	*HK$'000*	*HK$000*
Promissory notes	**12,718**	**12,715**	—	—
Convertible bonds	**29,712**	**30,002**	—	—

At 30 June 2014, the Group had no financial instruments carried at fair value which are based on the Level 1, Level 2 and Level 3 of the fair value hierarchy. There were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 during the year 2014 (during the year 2013: HK$Nil).

7. CAPITAL RISK MANAGEMENT

The primary objective of the Group's capital management is to safeguard the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares or obtain borrowings from banks or other third parties. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2013 and 30 June 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

7. CAPITAL RISK MANAGEMENT (Continued)

The Group monitors capital using a gearing ratio, which is net debts dividend by equity attributable to owners of the Company. The gearing ratios at the end of reporting periods were as follows:

	2014 **HK$'000**	2013 HK$'000
Borrowings (Note (i))	**105,263**	42,400
Cash and cash equivalents (Note (ii))	**(43,149)**	(1,815)
Net debt	**62,114**	40,585
Equity attributable to owners of the Company	**(919)**	1,914
Net debt to equity ratio	**N/A**	2,120.4%

Note:

(i) Borrowings include other borrowings, promissory notes and convertible bonds.

(ii) Cash and cash equivalents comprise bank balances and cash on hand at the end of the reporting period.

8. TURNOVER

	2014 **HK$'000**	2013 HK$'000
Sales of beauty equipment	**—**	1,140
Sales of beauty products	**16,537**	4,478
Therapy services	**11,045**	2,522
	27,582	8,140

9. SEGMENT INFORMATION

Information reported to the Directors, who being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

9. SEGMENT INFORMATION (Continued)

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(i) Sales of beauty equipment

(ii) Sales of beauty products

(iii) Therapy services

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business unit has different marketing strategies.

OPERATING SEGMENT	Sales of beauty equipment *HK$'000*	Sales of beauty products *HK$'000*	Therapy services *HK$'000*	Segment total *HK$'000*
For the year ended 30 June 2014				
REVENUE				
Revenue from external customers	**–**	**16,537**	**11,045**	**27,582**
RESULTS				
Segment profit for reportable segment	**–**	**5,634**	**4,355**	**9,989**
Interest income on bank deposits				**16**
Unallocated corporate income				**4,750**
Unallocated corporate expenses				**(16,487)**
Gain on disposal of property, plant and equipment				**183**
Impairment loss recognised in respect of deposits, prepayments and other receivables				**(80)**
Loss on disposal of property, plant and equipment				**(1,816)**
Imputed interest on convertible bonds				**(411)**
Imputed interest on promissory notes				**(326)**
Written down of property, plant and equipment				**(8)**
Written off of deposits, prepayments and other receivables				**(6)**
Written off of inventories				**(6)**
Written off of trade receivables				**(2)**
Finance costs				**(5,927)**
Loss before tax				**(10,131)**
Income tax expense				**(487)**
Loss for the year				**(10,618)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

9. SEGMENT INFORMATION (Continued)

OPERATING SEGMENT	Sales of beauty equipment HK$'000	Sales of beauty products HK$'000	Therapy services HK$'000	Segment total HK$'000
For the year ended 30 June 2013				
REVENUE				
Revenue from external customers	1,140	4,478	2,522	8,140
RESULTS				
Segment profit/(loss) for reportable segment	72	(4,269)	(1,641)	(5,838)
Interest income on bank deposits				1
Unallocated corporate income				9,067
Unallocated corporate expenses				(20,389)
Gain on disposal of property, plant and equipment				53
Impairment loss recognised in respect of deposits, prepayments and other receivables				(1,254)
Loss on disposal of property, plant and equipment				(122)
Written down of property, plant and equipment				(1,145)
Written off of deposits, prepayments and other receivables				(192)
Finance costs				(3,749)
Loss before tax				(23,568)
Income tax expense				—
Loss for the year				(23,568)

Revenue reported above represents revenues generated from external customers. There were no inter-segment sales during the year 2014 (during the year 2013: HK$Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies as described in note 4.

Segments profit/(loss) represents profit earned or loss incurred by each segment without allocation of corporate administration costs including directors' remunerations, other income, finance costs and income tax expense. This is the measure reported to the chief operation decision makers for the purposes of resource allocation and assessment of segment performance.

9. SEGMENT INFORMATION (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

— all assets are allocated to reportable segments other than intangible asset and goodwill, other unallocated head office and corporate financial assets; and

— all liabilities are allocated to reportable segments other than amount due to a former director, tax payables and deferred tax liabilities, other unallocated head office and corporate financial liabilities, other borrowings, promissory notes and convertible bonds.

Segment assets and liabilities

	Sales of beauty equipment *HK$'000*	**Sales of beauty products** *HK$'000*	**Therapy services** *HK$'000*	**Segment total** *HK$'000*
2014				
ASSETS				
Segment assets	**—**	**2,225**	**16,819**	**19,044**
Unallocated corporate assets				**122,830**
Consolidated total assets				**141,874**
LIABILITIES				
Segment liabilities	**—**	**(215)**	**(22,911)**	**(23,126)**
Unallocated corporate liabilities				**(117,806)**
Consolidated total liabilities				**(140,932)**

	Sales of beauty equipment *HK$'000*	Sales of beauty products *HK$'000*	Therapy services *HK$'000*	Segment total *HK$'000*
2013				
ASSETS				
Segment assets	—	1,107	1,976	3,083
Unallocated corporate assets				50,748
Consolidated total assets				53,831
LIABILITIES				
Segment liabilities	—	—	(650)	(650)
Unallocated corporate liabilities				(51,267)
Consolidated total liabilities				(51,917)

9. SEGMENT INFORMATION (Continued)

Other segment information

	Sales of beauty equipment HK$'000	Sales of beauty products HK$'000	Therapy services HK$'000	Unallocated HK$'000	Segment total HK$'000
For the year ended 30 June 2014					
Amount included in the measure of segment profit and segment assets					
Additions to property, plant and equipment	**—**	**—**	**3,557**	**8,079**	**11,636**
Depreciation	**—**	**—**	**503**	**2,221**	**2,724**
For the year ended 30 June 2013					
Amount included in the measure of segment profit/(loss) and segment assets					
Additions to property, plant and equipment	—	—	2,451	7,293	9,744
Depreciation	—	—	173	1,398	1,571

Geographical information

The Group mainly operates in Hong Kong after de-consolidation of the Unconsolidated Subsidiaries. The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Hong Kong	**27,582**	8,140	**40,254**	8,295
The People's Republic of China (the "PRC")	**—**	—	**5**	6
	27,582	8,140	**40,259**	8,301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

9. SEGMENT INFORMATION (Continued)

Information about major customer

No other single customer contributed 10% or more to the Group's revenue for the year ended 30 June 2014 (for the year ended 2013: HK$Nil).

10. OTHER INCOME

	2014	2013
	HK$'000	*HK$'000*
Bank interest income	**16**	1
Other interest income	**4,733**	4,552
Gain on defaulted payment of the refundable deposit	**—**	4,500
Gain on disposal of property, plant and equipment	**183**	53
Sundry income	**17**	15
	4,949	9,121

11. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interest on other borrowings wholly payable within 5 years (Note)	**5,899**	3,705
Interest on finance leases	**28**	44
Imputed interest on convertible bonds (note 33)	**411**	—
Imputed interest on promissory notes (note 32)	**326**	—
	6,664	3,749

Note:

Included in interest on other borrowings were the loan advanced by Koffman Investment Limited ("KIL") and Hong Kong Builders Finance Limited ("HK Builders") with a term of 3 months from 27 March 2012 at interest rate of 12% per annum and with a term of 36 months from the date of drawdown at interest rate of 5% per annum respectively.

On 13 February 2014, the Company has entered into the second supplemental loan agreement with KIL to extend the repayment date of the above loan from 28 February 2014 to 31 December 2014. The loan was fully settled during the year ended 30 June 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emolument of each Director for the year ended 30 June 2014 and 2013 are set out below:

	2014				2013			
	Fee	Salaries and other emoluments	Retirement benefit scheme contributions	Total	Fee	Salaries and other emoluments	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors								
Yu Zhen Hua, Johnny(1)	—	—	—	—	—	—	—	—
Ji He Qun(2)	—	—	—	—	9	—	—	9
Wang Xiao Fei(3)	110	—	—	110	120	—	—	120
Wang Shang Zhong	120	—	—	120	120	—	—	120
Lee Chan Wah(4)	—	211	8	219	—	600	15	615
Non-executive director								
Du Juan Hong(5)	120	—	—	120	120	—	—	120
Independent Non-executive directors								
Tam B Ray, Billy	120	—	—	120	120	—	—	120
Chu Kin Wang, Peleus	120	—	—	120	120	—	—	120
Tse Joseph(6)	120	—	—	120	105	—	—	105
	710	211	8	929	714	600	15	1,329

Notes:

(1) Mr. Yu Zhen Hua, Johnny is the chairman and the managing director of the Company

(2) Mr. Ji He Qun resigned on 27 July 2012

(3) Mr. Wang Xiao Fei resigned on 25 May 2014

(4) Mr. Lee Chan Wah was appointed on 16 August 2012

(5) Mr. Du Juan Hong resigned on 3 June 2014

(6) Mr. Tse Joseph was appointed on 16 August 2012

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

No Directors had waived or agreed to waive any fees or emoluments during the year ended 30 June 2014 and 2013. There were no amounts paid or payable to the Directors as an inducement to join or upon joining the Company and no emolument for the chief executive officer was paid.

(b) Employees' emoluments

The emoluments of the five (2013: four) highest paid individuals for the years ended 30 June 2014 and 30 June 2013 were as follows:

	2014 *HK$'000*	2013 *HK$'000*
Salaries and other benefits	**1,605**	2,210
Retirement benefit scheme contributions	**68**	68
	1,673	2,278

The number of non-director, highest paid employees whose remuneration fell within the following bands:

	Number of employees	
	2014	2013
Nil–HK$1,000,000	**5**	4

Included in the five highest paid employee, the number of senior management (being the non-directors employee) whose remuneration fell within the following band as follows:

	Number of employees	
	2014	2013
Nil–HK$1,000,000	**1**	—

During the year ended 30 June 2014 and 2013, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

13. LOSS BEFORE TAX

	2014 HK$'000	2013 HK$'000
Loss before tax has been arrived at after charging:		
Directors' remuneration (note 12(a))	**(929)**	(1,329)
Other staff costs	**(7,695)**	(9,184)
Retirement benefit scheme contributions	**(324)**	(341)
Total staff costs	**(8,948)**	(10,854)
Auditors' remuneration	**(620)**	(1,030)
Depreciation (note 19)	**(2,724)**	(1,571)
Loss on disposal of property, plant and equipment	**(1,816)**	(122)
Impairment loss recognised in respect of deposits, prepayments and other receivables (note 23)	**(80)**	(1,254)
Written down of property, plant and equipment (note 19)	**(8)**	(1,145)
Written off of deposits, prepayments and other receivables	**(6)**	(192)
Written off of inventories (note 21)	**(6)**	—
Written off of trade receivables (note 22)	**(2)**	—
Operating lease payments	**(4,708)**	(4,131)

14. INCOME TAX EXPENSE

Income tax recognised in consolidated statement of profit or loss and other comprehensive income:

	2014 HK$'000	2013 HK$'000
Current tax:		
Hong Kong	**555**	—
Deferred tax (note 34):		
Arising on imputed interest on convertible bonds	**(68)**	—
Total income tax recognised in consolidated statement of profit or loss and other comprehensive income	**487**	—

Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year. The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

14. INCOME TAX EXPENSE (Continued)

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

	2014 HK$'000	2013 HK$'000
Loss before tax	**(10,131)**	(23,568)
Tax at the Hong Kong Profits Tax rate of 16.5% (2013: 16.5%)	**(1,672)**	(3,889)
Tax effect of non-deductible expenses	**490**	463
Tax effect of non-taxable income	**(39)**	(9)
Tax effect on temporary differences arising from accelerated depreciation allowance not recognised	**197**	(380)
Tax effect of tax loss not recognised	**1,536**	3,819
Effect of different tax rates of subsidiary operating in other jurisdiction	**(25)**	(4)
Tax charge for the year	**487**	—

15. DIVIDENDS

The Directors do not recommend any payment of dividends for the year ended 30 June 2014 and 2013.

16. LOSS PER SHARE

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

	2014 HK$'000	2013 HK$'000
Loss for the purpose of basic and diluted loss per share:		
Loss for the year attributable to owners of the Company	**(11,768)**	(23,568)
Number of shares:		(Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**13,122,000**	13,122,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

16. LOSS PER SHARE (Continued)

The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share for the year ended 30 June 2014 and 2013 have been adjusted for the capital reorganisation as effective on 13 May 2014.

Diluted loss per share for the year ended 30 June 2014 was the same as the basic loss per share as the Company's outstanding convertible bonds were anti-dilutive and had no dilutive effect.

Diluted loss per share for the year ended 30 June 2013 was the same as the basic loss per share as there was no diluting event.

17. INTANGIBLE ASSET

The Group

	Total *HK$'000*
Trademark	
Cost	
At 1 July 2012, 30 June 2013, 1 July 2013 and 30 June 2014	18,720
Accumulated amortisation and impairment	
At 1 July 2012, 30 June 2013, 1 July 2013 and 30 June 2014	18,720
Carrying amounts	
At 30 June 2014	—
At 30 June 2013	—

Intangible asset represents the trademark "Blu Spa" used by the Group on its products and therapy services. Such intangible asset is amortised on a straight-line basis over 20 years and its estimated remaining useful life is 6 years at the beginning of the reporting period.

Impairment test of trademark

The Group completed its annual impairment test for the trademark by comparing its recoverable amount to the carrying amount at 30 June 2013 and 30 June 2014. The recoverable amount of the trademark is determined based on value-in-use calculation of the cash flow projections on the financial estimation. At 30 June 2013 and 2014, the Directors are of the opinion that there will be no material future cash inflow contributed to the Group of the trademark "Blu Spa". The trademark was fully impaired during the year ended 30 June 2012. No reversal of impairment loss of intangible asset was recognised for the year ended 30 June 2013 and 2014.

18. GOODWILL

The Group

	Total
	HK$'000
Cost	
At 1 July 2012, 30 June 2013 and 1 July 2013	—
Additional amounts recognised from business combination occurring during the year (note 37)	18,266
At 30 June 2014	18,266
Accumulated impairment loss	
At 1 July 2012, 30 June 2013, 1 July 2013 and 30 June 2014	—
Carrying amounts	
At 30 June 2014	**18,266**
At 30 June 2013	—

Impairment test of goodwill

Goodwill acquired through business combination has been allocation to the sales of beauty products and therapy services CGUs (the "Group of CGUs"), which is reportable segments, for impairment testing.

The recoverable amount of the Group of CGUs is determined based on a value-in-use calculation which uses cash flow projection based on financial budgets approved by the Directors covering a five-year period, and a discount rate of 16.38% per annum.

Cash flow projects during the budget period are based on the financial budget approved by the management covering a five-year period and assumed growth rate are used to extrapolate the cash flow in the following years. The financial budgets are prepared based on a five-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of 3.5% per annum beyond the five-year period taking into account long term gross domestic product growth, inflation rate and other relevant economic factors.

No impairment loss has been recognised in respect of goodwill related to the Group of CGUs for the year ended 30 June 2014 as its recoverable amount exceeds the carrying amount.

The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the Groups of CGUs to exceed the aggregate its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

19. PROPERTY, PLANT AND EQUIPMENT

The Group	Plant and machinery	Leasehold improvement	Furniture, fixture and equipment	Motor vehicle	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 July 2012	530	1,263	878	611	3,282
Additions	1,670	6,562	1,352	160	9,744
Disposals	(1,239)	—	(326)	(611)	(2,176)
Written off	—	(1,361)	(100)	—	(1,461)
At 30 June 2013 and 1 July 2013	961	6,464	1,804	160	9,389
Additions	—	3,543	565	—	4,108
Disposals	(6)	(3,401)	(15)	(160)	(3,582)
Written off	—	(2)	(7)	—	(9)
Acquisition through business combination (note 37)	3,365	2,739	1,424	—	7,528
At 30 June 2014	4,320	9,343	3,771	—	17,434
Accumulated depreciation and impairment					
At 1 July 2012	14	42	29	41	126
Charge for the year	173	921	339	138	1,571
Written back on disposals	(91)	—	(39)	(163)	(293)
Written off	—	(290)	(26)	—	(316)
At 30 June 2013 and 1 July 2013	96	673	303	16	1,088
Charge for the year	504	1,657	544	19	2,724
Written back on disposals	(3)	(1,181)	(4)	(35)	(1,223)
Written off	—	—	(1)	—	(1)
At 30 June 2014	597	1,149	842	—	2,588
Carrying amounts					
At 30 June 2014	**3,723**	**8,194**	**2,929**	**—**	**14,846**
At 30 June 2013	865	5,791	1,501	144	8,301

Included in the carrying amounts of plant and machinery and furniture, fixture and equipment (2013: furniture, fixture and equipment and motor vehicle) of approximately HK$660,000 and approximately HK$23,000 (At 30 June 2013: approximately HK$32,000 and approximately HK$144,000 respectively) are held under finance leases respectively.

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company	Leasehold improvement	Furniture, fixture and equipment	Motor vehicle	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 July 2012	1,255	33	611	1,899
Additions	98	10	—	108
Disposal	—	—	(611)	(611)
Written off	(1,353)	(33)	—	(1,386)
At 30 June 2013, 1 July 2013 and 30 June 2014	—	10	—	10
Accumulated depreciation and impairment				
At 1 July 2012	42	1	41	84
Charge for the year	246	7	122	375
Written back on disposals	—	—	(163)	(163)
Written off	(288)	(7)	—	(295)
At 30 June 2013 and 1 July 2013	—	1	—	1
Charge for the year	—	1	—	1
At 30 June 2014	—	2	—	2
Carrying amounts				
At 30 June 2014	—	8	—	8
At 30 June 2013	—	9	—	9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

20. INTERESTS IN SUBSIDIARIES

The Company	Unlisted shares, at cost	Impairment loss	Amounts due from subsidiaries	Impairment loss on amounts due from subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2012	483	(480)	3,611	(57)	3,557
Advance to subsidiaries	—	—	24,623	—	24,623
At 30 June 2013 and 1 July 2013	483	(480)	28,234	(57)	28,180
Advance to subsidiaries	—	—	30,776	—	30,776
Impairment loss recognised	—	—	—	(16,485)	(16,485)
At 30 June 2014	**483**	**(480)**	**59,010**	**(16,542)**	**42,471**

At 30 June 2014, an accumulated impairment losses of approximately HK$480,000 (At 30 June 2013: approximately HK$480,000) and approximately HK$16,542,000 (At 30 June 2013: approximately HK$57,000) for investments in unlisted subsidiaries and amount due from subsidiaries with gross carrying amount of approximately HK$480,000 (At 30 June 2013: approximately HK$480,000) and approximately HK$59,010,000 (At 30 June 2013: approximately HK$776,000) respectively because the relevant subsidiaries had suffered losses for the year.

In the opinion of the Directors, the amounts due from subsidiaries are unsecured, non-interest bearing and are unlikely to be repaid within one year from the financial position date and are therefore shown in the statement of financial position as non-current.

Particulars of the Company's subsidiaries at 30 June 2014 are set out in note 43.

21. INVENTORIES

The Group	**2014**	2013
	HK$'000	*HK$'000*
Finished goods	**2,620**	1,137
Less: Written off	**(6)**	—
	2,614	1,137

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK$5,562,000 (for the year ended 30 June 2013: approximately HK$3,021,000).

21. INVENTORIES (Continued)

During the year ended 30 June 2014, certain inventories were obsolete that could not generate future economic benefits. In the opinion of the Directors, a written off of inventories of approximately HK$6,000 (for the year ended 2013: HK$Nil) was recognised.

22. TRADE RECEIVABLES

The Group	**2014**	2013
	HK$'000	*HK$'000*
Trade receivables	**5,240**	646
Less: Written off as uncollectible	**(2)**	—
	5,238	646

The Group assesses the credit status and imposes credit limits for the customers in accordance with the Group's credit policy. The credit limits are closely monitored and subject to periodic reviews.

The Group allows credit period ranging from 0 days to 120 days to its customers. Details of the ageing analysis of trade receivables that are not considered to be impaired and based on the invoice dates as follows:

The Group	**2014**	2013
	HK$'000	*HK$'000*
Aged:		
0–30 days	**4,229**	183
31–60 days	**861**	82
61–90 days	**68**	99
91–120 days	**75**	190
Over 120 days	**7**	92
	5,240	646
Less: Written off as uncollectible	**(2)**	—
	5,238	646

Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has written off of approximately HK$2,000 (for the year ended 30 June 2013: HK$Nil) as uncollectible for the year ended 30 June 2014 and the remaining has not been recognised as allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable at 30 June 2014 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits paid (Note (a))	**2,288**	3,930	**—**	2,500
Less: Written off as uncollectible	**(6)**	(2,500)	**—**	(2,500)
	2,282	1,430	**—**	—
Prepayments	**409**	271	**163**	231
Other receivables (Note (b))	**47,923**	45,231	**46,329**	45,207
Less: Written off as uncollectible	**—**	(5,000)	**—**	(5,000)
	47,923	40,231	**46,329**	40,207
Amounts due from the Unconsolidated Subsidiaries (Note (c))	**241,426**	241,847	**238,462**	238,883
Less: Impairment loss recognised	**(241,426)**	(241,346)	**(238,462)**	(238,382)
Less: Written off as uncollectible	**—**	(501)	**—**	(501)
	—	—	**—**	—
	50,614	41,932	**46,492**	40,438

Notes:

(a) The movements in the impairment losses of deposits recognised during the year are set out below:

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at beginning of the year	**—**	2,500	**—**	2,500
Less: Written off as uncollectible	**—**	(2,500)	**—**	(2,500)
Balance at end of the year	**—**	—	**—**	—

The deposits paid was mainly comprised of rental deposits of approximately HK$1,863,000 (2013: HK944,000) and deposit of a new point-of-sales system amounted approximately HK$Nil (2013: HK$261,000).

During the year ended 30 June 2014, the Directors are of the opinion that the rental deposit of approximately HK$6,000 was considered to be non-recoverable and thus was written off.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) As set out in the Company's announcement dated 30 April 2010, BSHK entered into the sale and purchase agreement dated 30 April 2010 with Mr. Shum Yeung (the "Debtor") pursuant to which BSHK agreed to purchase 70% of entire issued share capital of an entity and its loan at a consideration of HK$80,000,000 (the "SPA"). According to the SPA, a refundable deposit amounted to HK$45,000,000 was paid by BSHK on 12 February 2010 and 30 April 2010 of HK$10,000,000 and HK$35,000,000 respectively.

As set out in the Company's announcements dated 25 August 2010, 29 October 2010, 1 February 2011, 30 June 2011 and 30 November 2011, BSHK and the Debtor entered into several extension agreements and supplemental agreements on 25 August 2010, 29 October 2010, 1 February 2011, 30 June 2011 and 30 November 2011 for extension of the SPA.

As set out in the Company's announcements dated 30 March 2012 and 5 April 2012, BSHK and the Debtor entered into the deed of termination (the "DOT") dated 5 April 2012 pursuant to which with immediate effect the SPA became null and void. Simultaneously, the Debtor is liable to repay BSHK the full amount of the refundable deposit of HK$45,000,000 (the "Refundable Deposit"). Pursuant to the DOT, the Debtor should also pay a consideration of HK$4,500,000 to BSHK for termination of the SPA and provided that, if the Debtor duly repaid the total sum of the Refundable Deposit, the consideration of HK$4,500,000 should be released and the Debtor's obligation to pay HK$4,500,000 under the DOT should be discharged.

As set out in the Company's announcements dated 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012, the Debtor and BSHK entered into several extension agreements on 4 July 2012, 24 July 2012, 3 August 2012 and 21 August 2012 respectively for extension of the repayment of the Refundable Deposit (together, the "Repayment Extension Agreements").

As set out in the Company's announcement dated 28 September 2012, a writ of summons was issued in the High Court of Hong Kong by BSHK, as the plaintiff claiming against the Debtor for, (i) the repayment of an outstanding sum due and owing from the Debtor under the DOT and Repayment Extension Agreements and (ii) the breach of the DOT and the Repayment Extension Agreements on 25 September 2012.

As set out in the Company's announcement dated 1 November 2012, BSHK and the Debtor entered into the first deed of settlement for the purpose of settling the abovementioned claims. The amount of HK$4,050,000 was repaid by the Debtor on 13 November 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) (Continued)

As set out in the Company's announcement dated 29 January 2013, BSHK and the Company entered into the deed of assignment (the "DOA") dated 29 January 2013 pursuant to which BSHK assigns, sells, transfers and sets over to the Company, all its rights, title and interest in and obligation to the Refundable Deposit and the DOT and the Repayment Extension Agreements. As a result, the amounts due from the Unconsolidated Subsidiaries amounted to approximately HK$40,950,000 was reclassified to other receivables due from the Debtor (the "Other Receivable"). On 29 January 2013, the Company, BSHK and the Debtor entered into a second deed of settlement (the "Second DOS") dated 29 January 2013 for the purpose of settling the abovementioned claims and the Debtor further settled approximately HK$1,823,000.

As set out in the Company's announcement dated 3 May 2013, on 29 April 2013, the Company and the Debtor have agreed to extent the settlement of the Other Receivable with interest of 30%. As the Debtor defaulted to make settlement according to the Second DOS, the Directors consider the Debtor breached the terms of the DOT and recognised the consideration for termination of the SPA of HK$4,500,000 as the gain on defaulted payment of the Refundable Deposit in the consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2013.

On 30 July 2013, the Company filed the DOA and corresponding documents to the High Court of Hong Kong for claims against the Debtor. On 6 September 2013, the Directors were given to understand by its legal representatives that the judge has entered judgment against the Debtor in the following terms: 1) judgment against the Debtor be entered for the sum of HK$39,127,500 together with contractual interest thereon calculated from day to day at the rate of 30% per annum from 1 May 2013 to 6 September 2013, and thereafter at judgment rate pursuant to s. 48 of High Court Ordinance until payment; and 2) the Debtor shall pay the Company the costs of this action including the costs of the Company's application for summary judgment (the "Summary Judgement") to be taxed if not agreed. During the year, the interest income in respect of the Other Receivable amounted to approximately HK$4,733,000 (for the year ended 30 June 2013: approximately HK$4,552,000) of which HK$Nil (for the year ended 30 June 2013: approximately HK$3,472,000) was settled.

As Mr. Shum failed to settle the judgment debt, the Company applied to the High Court of Hong Kong for garnishee orders (the "Garnishee Orders") and charging orders (the "Charging Orders") for the recovery of the judgment debt. The hearing of the Garnishee orders and Charging Orders was originally fixed to be heard on 6 November 2013. However, Mr. Shum made an application to the Court on 4 November 2013 for staying the proceedings for the Charging Orders and the Garnishee Orders and setting aside the Summary Judgment. The Company asked for the adjournment of the hearing on 6 November 2013 in order to file and serve affirmation in opposition to Mr. Shum's application. The application for making the Charging Orders and Garnishee Orders and Mr. Shum's application was therefore adjourned to be heard on 5 March 2014. The High Court of Hong Kong did not make judgment at the close of the hearing and will hand down the judgment later. At the date of this report, the judgment has not yet been handed down by the High Court of Hong Kong.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) (Continued)

Furthermore, as set out in the Company's announcement dated 3 May 2013, the Company and Dutfield International Group Company Limited ("Dutfield") has entered into the deed of guarantee (the "DOG") pursuant to which Dutfield has agreed to provide guarantee to the Company for repayment of the Other Receivable. Pursuant to the DOG, Dutfield has agreed to undertake the liabilities and becomes due and payable to the Company when the Debtor defaulted to repay the Other Receivable. The Directors were given to understand that Dutfield is also a plaintiff in the legal proceedings for a claim for the sum of HK$141,360,000 under a loan agreement in regarding to a mortgaged property. The Company, the Debtor and Dutfield have agreed that any proceeds received by Dutfield the abovementioned proceedings shall be paid to the Company immediately for settling the Other Receivable. Up to the date of this report, the legal proceeding is still in progress and pending for judgment.

The movements in the impairment loss of other receivables during the year are set out below:

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at beginning of the year	**–**	5,000	**–**	5,000
Less: Written off as uncollectible	**–**	(5,000)	**–**	(5,000)
Balance at end of the year	**–**	—	**–**	—

(c) Included in "Deposits, prepayments and other receivables" of the Group was the amounts due from the Unconsolidated Subsidiaries amounted to approximately HK$241,426,000 (At 30 June 2013: approximately HK$241,847,000) and accumulated impairment loss of approximately HK$241,426,000 (At 30 June 2013: approximately HK$241,346,000) of which HK$80,000 (for the year ended 30 June 2013: approximately HK$1,254,000) was recognised in the consolidated statement of profit or loss and other comprehensive income during the year. As set out in note 2, the Unconsolidated Subsidiaries was de-consolidated with effect from 1 July 2011. Accordingly, the amounts due from the Unconsolidated Subsidiaries were reclassified from intercompany balance to the amounts due from the Unconsolidated Subsidiaries in the consolidated financial statements and above mentioned impairment loss was recognised. The amounts due from the Unconsolidated Subsidiaries are non-interest bearing, unsecured and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

Included in "Deposits, prepayments and other receivables" of the Company was the amounts due from the Unconsolidated Subsidiaries amounted to approximately HK$238,462,000 (At 30 June 2013: HK$238,883,000) and accumulated impairment losses of approximately HK$238,462,000 (At 30 June 2013: approximately HK$238,382,000) of which HK$80,000 (for the year ended 30 June 2013: approximately HK$1,242,000) was recognised in the Company's statement of profit or loss and other comprehensive income for the year ended 30 June 2014. As set out in note 2, the Unconsolidated Subsidiaries were de-consolidated with effect from 1 July 2011. Accordingly, the amounts due from the Unconsolidated Subsidiaries were reclassified from interests in subsidiaries to the amounts due from the Unconsolidated Subsidiaries in the financial statements and above mentioned impairment loss was recognised. The amounts due from the Unconsolidated Subsidiaries are non-interest bearing, unsecured and repayable on demand.

The movements in the impairment of amounts due from the Unconsolidated Subsidiaries during the year are set out below:

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at the beginning of the year	**241,346**	240,593	**238,382**	237,641
Impairment loss recognised	**80**	1,254	**80**	1,242
Written off as uncollectible	**—**	(501)	**—**	(501)
Balance at the end of the year	**241,426**	241,346	**238,462**	238,382

24. BANK BALANCES AND CASH/RESTRICTED BANK DEPOSITS

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and on hand	**30,633**	1,314	**23,355**	179
Short-term bank deposits less than 3 months	**12,516**	501	**—**	—
Restricted bank deposit	**7,147**	—	**—**	—
	50,296	1,815	**23,355**	179

Analysed for reporting purposes:

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current Assets	**43,149**	1,815	**23,355**	179
Non-current assets	**7,147**	—	**—**	—
	50,296	1,815	**23,355**	179

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$161,000 (At 30 June 2013: approximately HK$309,000).

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Bank balances earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Restricted bank deposit represents receipts from sales of beauty products and provision of therapy services to customers through credit cards held at bank. In accordance with a termination of merchant agreement dated 10 January 2014 (the "Termination Date") of China Honest, the release date of the restricted bank deposits will be 540 days following the Termination Date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

25. AMOUNT DUE TO A FORMER DIRECTOR

The Group and the Company

At 30 June 2014, the amount due to Ms. Chan Choi Har, Ivy amounted to approximately HK$64,000 (At 30 June 2013: HK$64,000).

The amount due to a former director is non-interest bearing, unsecured and repayable on demand.

Ms. Chan Choi Har, Ivy resigned as an executive director of the Company on 7 March 2012.

26. TRADE PAYABLES

The Group

	2014	2013
	HK$'000	*HK$'000*
Trade payables	**399**	—

The following is an analysis of trade payables by age based on the invoice dates:

The Group

	2014	2013
	HK$'000	*HK$'000*
Aged:		
0–30 days	**366**	—
31–60 days	**—**	—
61–90 days	**33**	—
91–120 days	**—**	—
Over 120 days	**—**	—
	399	—

27. DEPOSITS FROM CUSTOMERS

The Group	2014 HK$'000	2013 HK$'000
Deposits from customers	**94**	455

The deposits from customers represented the deposits received for therapy services and beauty products.

28. DEFERRED REVENUE

An aged analysis, based on invoice dates, of deferred revenue is as follows:

The Group	2014 HK$'000	2013 HK$'000
Within one year	**5,274**	—
More than one year but within two years	**16,595**	—
	21,869	—

The movement of deferred revenue is as follows:

The Group	2014 HK$'000	2013 HK$'000
Balance at beginning of the year	**—**	—
Acquisition through business combination (note 37)	**21,010**	—
Sales contracts entered into during the year (Note (a))	**11,376**	—
Revenue recognised upon the provision of services (Note (b))	**(10,153)**	—
Revenue recognised upon expiry of prepaid treatment packages (Note (c))	**(364)**	—
Balance at end of the year	**21,869**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

28. DEFERRED REVENUE (Continued)

Notes:

(a) The amounts represent receipts from provision of therapy services to clients during the year which were to be settled via credit cards, Electronic Payment System ("EPS"), cash and instalment payment arrangement.

(b) The amounts represent revenue recognised in profit or loss as a result of therapy services rendered to clients during the year.

(c) The amounts represent revenue recognised in profit or loss for prepaid service packages expired in accordance with the contractual service periods stipulated in the respective sale contracts, which last for 2 years for all sale contracts.

At 30 June 2014, the entire balance of deferred revenue was aged within 2 years from the date when the respective sales contracts were entered into.

29. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals	**6,123**	4,321	**5,227**	3,672
Other payables (Note (a))	**2,753**	3,201	**1,039**	2,954
Amounts due to the Unconsolidated Subsidiaries (Note (b))	**1,309**	1,309	**—**	—
	10,185	8,831	**6,266**	6,626

Notes:

(a) On 12 May 2014, a wholly-owned subsidiary of the Company entered into a memorandum with an independent third party, for the purpose of acquiring the trademark "Blu Spa" and its ancillary right at a consideration of HK$350,000. A refundable deposit of HK$350,000 paid by the independent third party was included in other payables at 30 June 2014.

(b) The amounts due to the Unconsolidated Subsidiaries are non-interest bearing, unsecured and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

30. OBLIGATION UNDER FINANCE LEASES

The Group

At 30 June 2014, the Group leased certain of its plant and machineries and a digital photocopier (2013: a motor vehicle and a digital photocopier) under finance leases. The average lease term is 5 years (2013: 4.5 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 0% to 3% (2013: 0% to 3.25%) per annum. The motor vehicle has been disposed of during the year ended 30 June 2014.

	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**675**	51	**588**	43
More than one year and not more than five years	**181**	132	**160**	124
	856	183	**748**	167
Less: Future finance charges	**(108)**	(16)	**—**	—
	748	167	**748**	167
Less: Amounts due for settlement within 12 months (shown under current liabilities)			**(588)**	(43)
Amounts due for settlement after 12 months			**160**	124

Included in the obligation under finance leases of approximately HK$725,000, is secured by the guarantee from the Government of the HKSAR to the extent of HK$1,450,000 and joint and several guarantee from a key management personnel of China Honest, and an independent third party to the extent of HK$2,900,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

31. OTHER BORROWINGS

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Balance at beginning of the year	**42,400**	19,586	**42,400**	19,586
Acquisition through business combination (note 37)	**1,400**	—	**—**	—
Proceeds from borrowing	**72,500**	24,905	**72,500**	24,905
Loan interest for the year	**5,899**	3,705	**5,899**	3,705
Repayments of interest and borrowing	**(59,366)**	(5,796)	**(59,366)**	(5,796)
Balance at end of the year	**62,833**	42,400	**61,433**	42,400

Carrying amount repayable:

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**1,833**	42,400	**433**	42,400
More than two years, but not exceeding five years	**61,000**	—	**61,000**	—
	62,833	42,400	**61,433**	42,400

Included in other borrowings of approximately HK$Nil (At 30 June 2013: approximately HK$42,400,000) was a loan advanced by KIL of which Mr. Yu Zhen Hua Johnny ("Mr. Yu"), an executive director and the chairman of the Company, is the ultimate beneficial owner of KIL. On 26 June 2012, the Company has entered into an extension loan agreement with KIL pursuant to which, KIL agreed to make available to the Company a loan facility up to HK$50,000,000 for a term of 3 months from 27 June 2012 at interest rate of 12% per annum. On 17 October 2012, KIL agreed to further increase the loan facility up to HK$60,000,000. There is no security over the assets of the Group in respect of this loan.

On 13 February 2014, the Company has entered into the second supplementary loan agreement with KIL to make available to the Company a loan facility up to HK$80,000,000 and extend the repayment date of the above loan to 31 December 2014. The loan was fully settled during the year ended 30 June 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

31. OTHER BORROWINGS (Continued)

Included in other borrowings of HK$21,000,000 and HK$40,000,000 were loans advanced by HK Builders for a term of 36 months from 9 April 2014 and 26 May 2014 (the "Dates of Drawdowns") respectively at interest rate of 5% per annum. Interests on the above loans are payable on the last day of every three months from the Dates of Drawdowns. There is no security over the assets of the Group in respect of these loans and the amounts of the loan principal and of the loan interests are classified as non-current liabilities and current liabilities in the consolidated statement of financial position respectively.

Included in other borrowings of HK$1,400,000 was a loan advanced by Dr. Lo Shing Kei, is non-interest bearing, unsecured and repayable on demand. There is no security over the assets of the Group in respect of this loan and the amount is classified as current liabilities in the consolidated statement of financial position.

32. PROMISSORY NOTES

The Group and the Company

	2014	2013
	HK$'000	*HK$'000*
Balance at beginning of the year	**—**	—
Issue of the Promissory Notes, at fair value (note 32)	**12,392**	—
Imputed interest on promissory notes (note 11)	**326**	—
Balance at end of the year	**12,718**	—

Note:

On 11 April 2014, the Company issued promissory notes (the "Promissory Notes") with an aggregate amount of HK$13,420,000 as part of the consideration for the acquisition of 51% equity interest in China Honest (the "Acquisition"). The Promissory Notes are interest-free, with principal amount of approximately HK$2,608,000 and approximately HK$4,392,000 are repayable to the vendors of the Acquisition (the "Vendors") on 30 June 2014 ("PN I") and principal amount of approximately HK$4,028,000 and approximately HK2,392,000 shall be repayable to the Vendors on 30 June 2015 ("PN II").

The Promissory Notes are subjected to a profit guarantee of HK$4,000,000 of China Honest for the year ended 31 March 2014 (the "2014 Profit Guarantee") and HK$9,000,000 of China Honest for the year ended 31 March 2015 (the "2015 Profit Guarantee"). The Vendors shall compensate the profit shortfall against the face value of PN I and PN II on a dollar to dollar basis in case of the 2014 Profit Guarantee and 2015 Profit Guarantee do not met respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

32. PROMISSORY NOTES (Continued)

Note: (Continued)

The Directors have assessed that the 2014 Profit Guarantee was met and no compensation was made against the face value of PN I.

At 3 June 2014, the Vendors and the Company has entered into an extension agreement. Pursuant to which, the repayment date of PN I has been extended to 31 July 2014. The outstanding amount of PN I has been fully settled on 27 July 2014.

As PN II is subjected to the 2015 Profit Guarantee, therefore, it shall be classified as contingent consideration. For the period from 12 April 2014 to 30 June 2014, China Honest has incurred a profit of approximately HK$2,347,000. The Directors are of the opinion that the 2015 Profit Guarantee would be met and no provision for contingent consideration was made.

The fair values of PN I and PN II at the date of issued were determined at approximately HK$6,824,000 and approximately HK$5,568,000 respectively, based on an independent valuation carried out by Roma Appraisals Limited. The effective interest rate of PN I and PN II are 11.74% per annum and 12.28% per annum respectively.

33. CONVERTIBLE BONDS

On 22 May 2014, the Company issued convertible bonds in the principal amount of HK$40,000,000 to New Cove Limited. The convertible bonds are interest-free and are convertible into 40,000,000 shares of the Company at a conversion price of HK$1.00 per share (subject to adjustment) at any time up to the maturity date on 22 November 2016.

The convertible bonds contain two components: liability and equity components. The equity component is presented in equity heading "convertible bonds reserve". The effective interest rate of the liability component on initial recognition is 13.15% per annum, based on an independent valuation carried out by Roma Appraisals Limited.

The Group and the Company

	2014	2013
	HK$'000	*HK$'000*
Face value of convertible bonds issued on 22 May 2014	**40,000**	—
Equity component	**(10,699)**	—
Liability component on initial recognition at 22 May 2014	**29,301**	—
Effective interest rate expense (note 11)	**411**	—
Liability component at end of the year	**29,712**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

34. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

The Group and the Company

	Convertible bonds *HK$'000*
At 1 July 2012, 30 June 2013 and 1 July 2013	—
Recognised directly in equity	1,765
Credited to profit or loss	(68)
At 30 June 2014	**1,697**

At the end of the reporting period, the Group has unused estimated tax losses of approximately HK$67,761,000 (At 30 June 2013: HK$58,798,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

35. SHARE CAPITAL

The Group and the Company

	Number of shares	Amount *HK$'000*
Authorised:		
At 1 July 2012, 30 June 2013, 1 July 2013 and 30 June 2014	5,000,000,000	500,000
Issued and fully paid:		
At 1 July 2012, 30 June 2013 and 1 July 2013	1,312,200,000	131,220
Capital reorganisation (Note)	(1,299,078,000)	(129,908)
At 30 June 2014	13,122,000	1,312

Note:

On 28 February 2013, the shareholders approved the following changes to the capital of the Company:

(1) the issued share capital of the Company shall be reduced through a cancellation of the paid-up capital of the Company to the extent of HK$0.099 on each of the issued share of HK$0.10 in the share capital of the Company so that the nominal value of each issued share shall be reduced from HK$0.10 to HK$0.001 (the "Capital Reduction") so as to form a new share with a nominal value of HK$0.001 (the "New Shares");

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

35. SHARE CAPITAL (Continued)

Note: (Continued)

(2) every one hundred New Shares of HK$0.001 each in the share capital of the Company shall be consolidated into one issued consolidated share of HK$0.10 each (the "Capital Consolidation", together with the Capital Reduction, the "Capital Reorganisation");

(3) the credits arising from the Capital Reduction shall be transferred to the contributed surplus account.

The Capital Reorganisation became effective on 13 May 2014.

36. RESERVES

The Company	Share premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Convertible bonds reserve *HK$'000*	Total *HK$'000*
At 1 July 2012	175,357	—	(278,124)	—	(102,767)
Loss for the year	—	—	(8,737)	—	(8,737)
At 30 June 2013 and 1 July 2013	175,357	—	(286,861)	—	(111,504)
Loss for the year	—	—	(28,214)	—	(28,214)
Capital reduction	—	129,908	—	—	129,908
Share premium cancellation	(175,357)	175,357	—	—	—
Transfer from contributed surplus to accumulated losses	—	(278,124)	278,124	—	—
Recognition of the equity component of convertible bonds	—	—	—	10,699	10,699
Deferred tax on convertible bonds	—	—	—	(1,765)	(1,765)
At 30 June 2014	**—**	**27,141**	**(36,951)**	**8,934**	**(876)**

Movements in reserves of the Group during the year are set out in consolidated statement of changes in equity on page 44 to the consolidated financial statements.

37. BUSINESS COMBINATION

On 11 April 2014, the Group completed the acquisition of 51% equity interest in China Honest, which was satisfied by (i) the deposit and partial payment of the consideration of HK$2,000,000; (ii) cash in the amount of HK$6,000,000; and (iii) the issuance of the Promissory Notes with an aggregated principal amount of HK$13,420,000, which comprise of PN I with a principal amount of HK$7,000,000 and PN II with a principal amount of HK$6,420,000.

China Honest is principally engaged in provision of beauty and wellness services. The acquisition enables the Group to continue the expansion of its operation.

The following table summarises the consideration paid for China Honest, the provisional fair value of assets acquired, liabilities assumed and the non-controlling interests at 11 April 2014.

	Notes	*HK$'000*
Consideration:		
— Cash paid		8,000
— PN I	32	6,824
— PN II	32	5,568
Total consideration		20,392

	Notes	*HK$'000*
Recognised amounts of identifiable assets acquired and liabilities assumed		
Property, plant and equipment	19	7,528
Restricted bank deposit		7,147
Inventories		629
Trade receivables		3,423
Deposits and prepayments		3,151
Bank balances and cash		5,337
Amount due to a director		(1,387)
Trade payables		(163)
Deposit from customer		(3)
Deferred revenue	28	(21,010)
Accruals and other payables		(892)
Obligation under finance leases		(852)
Other borrowing	31	(1,400)
Tax payables		(58)
Total identifiable net assets at fair value		1,450
Non-controlling interests (49% of China Honest)		(711)
Sale loan		1,387
Goodwill (note 18)		18,266
		20,392

37. BUSINESS COMBINATION (Continued)

Net cash outflow on acquisition of subsidiary	*HK$'000*
Consideration paid in cash	8,000
Less: Cash and cash equivalent balances acquired	(5,337)
	2,663

The non-controlling interests (49%) in China Honest recognised at the acquisition date was measured by reference to the non-controlling interests' proportionate share of China Honest identifiable net assets and amounted to approximately HK$711,000.

Acquisition-related costs of approximately HK$3,731,000 have been charged to administrative expenses in the consolidated profit or loss and other comprehensive income for the year ended 30 June 2014.

Pursuant to the sale and purchase agreement, the Promissory Notes are subjected to the 2014 Profit Guarantee and the 2015 Profit Guarantee. The Vendors shall compensate the profit shortfall against the face value of PN I and PN II on a dollar to dollar basis in case of the 2014 Profit Guarantee and 2015 Profit Guarantee do not met respectively.

The Directors have assessed that the 2014 Profit Guarantee was met and no compensation was made against the face value of PN I.

The fair value of PN I and PN II issued as part of the consideration paid for China Honest was estimated by discounting the estimated contractual cash flows over the remaining contractual term of the PN at the effective interests rates and was based on an independent valuation carried out by Roma Appraisals Limited.

As PN II is subjected to the 2015 Profit Guarantee, therefore, shall be classified as contingent consideration. For the period from 12 April 2014 to 30 June 2014, China Honest has incurred a profit of approximately HK$2,347,000. The Directors are of the opinion that the 2015 Profit Guarantee would be able to meet and no provision of contingent consideration was made.

Since the Acquisition, China Honest contributed approximately HK$9,256,000 to the Group's revenue and caused a profit of approximately HK$2,347,000 to the consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2014.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been approximately HK$53,772,000 and approximately HK$15,211,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

38. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all employees. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employers' contributions subject to a cap monthly relevant income of HK$30,000 (HK$25,000 prior to June 2014).

The retirement benefits cost charged to the consolidated statement of profit or loss and other comprehensive income represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

39. OPERATING LEASE COMMITMENTS

The Group	2014 HK$'000	2013 HK$'000
Within one year	**6,104**	3,345
In the second to fifth year inclusive	**1,503**	760
	7,607	4,105

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average terms of 1 to 3 years.

Rentals are fixed over the guarantee rental or a sales level based on the higher of a minimum guarantee rental or a sales level based rental. The minimum guaranteed rental has been used to compute the above comment.

40. LITIGATION AND CONTINGENT LIABILITIES

As disclosed in the Company's announcement 12 May 2014, on 28 April 2014, the Company received a writ of summons (the "Writ of Summons") from the People's Court of Huadu District, Guangzhou City, Guangdong Province of the People's Republic of China.

Pursuant to the two writs of civil proceedings (the "Writs of Civil Proceedings") enclosed with the Writ of Summons, the plaintiff 廣州市溢盈物業管理服務有限公司 (Guangzhou Yiying Property Management Services Co. Ltd.) ("Yiying"), a property management company, alleges that, among others, (i) 廣州市雅基置業有限公司 (Guangzhou Yaji Properties Co. Ltd.) ("Yaji") has defaulted in payment of the management fees and utilities and miscellaneous fees of approximately RMB2,868,000 in respect of certain commercial properties owned by Yaji in Huadu District, Guangzhou City (the "Properties") for the period from February 2012 to January 2014; and (ii) after the Properties had been sold and transferred to Yaji by 廣州市花都佳業房地產開發有限公司 (Guangzhou Huadu Jiaye Property Development Co. Ltd.) ("Jiaye"), Yaji continued to default in payment of the management fees and as Yaji did not have enough capacity for payment, upon discussion between the parties, Yaji, the Company, Yiying and Jiaye entered into a letter of confirmation (the "Letter of Confirmation") on 26 November 2010 providing that the obligations which should be performed by Yaji in relation to the management of the Properties would be assumed and performed by the Company. As such, the Company shall be jointly liable for the payment of the outstanding management fees and utilities and miscellaneous fees.

Under the Writs of Civil Proceedings, Yiying requests the People's Court of Huadu District to:

(i) order Yaji and the Company to forthwith and jointly pay to Yiying the outstanding management fees from February 2012 to January 2014 of approximately RMB2,866,000 and the default payment until the day of actual repayment of approximately RMB1,369,000 at 31 January 2014, totalling amounted to approximately RMB4,235,000;

(ii) order Yaji and the Company to forthwith and jointly pay to Yiying the outstanding utilities and miscellaneous fees from February 2012 to January 2014 of RMB2,000 and the interest loss until the day of actual repayment of approximately RMB300 at 31 January 2014, totalling amounted to approximately RMB3,000;

(iii) order the appraisal fee of approximately RMB8,000.00 for the security for the application for preservation of property be borne jointly by Yaji and the Company; and

(iv) order all costs of the legal proceedings be borne jointly by Yaji and the Company.

40. LITIGATION AND CONTINGENT LIABILITIES (Continued)

With reference to the announcements of the Company dated 30 April 2010, 5 April 2012, 4 July 2012, 24 July 2012, 3 August 2012, 21 August 2012, 28 September 2012, 26 October 2012, 1 November 2012, 21 December 2012, 29 January 2013 and 25 April 2013 in relation to, among others, the proposed acquisition of a company which held the entire equity interest in Yaji, the termination of such proposed acquisition and the legal proceedings against the Debtor. Although Yaji was once a wholly-owned subsidiary of the target company to be acquired by the Group, such proposed acquisition was terminated and the Group has never acquired any equity interest in Yaji.

Having examined a copy of the Letter of Confirmation enclosed with the Writ of Summons, reviewed the internal records of the Company and enquired with the former management of the Company at the relevant times, the Company considers that the signature of the alleged representative of the Company on the Letter of Confirmation was not signed by any authorised representative of the Company and may be forged for, among others, the following reasons:

(i) the signature of the alleged representative of the Company on the Letter of Confirmation was different from those of the former directors and the chief executive officer of the Company at the relevant times;

(ii) the company chop affixed to the Letter of Confirmation was not the one commonly used by the Company for the execution of documents;

(iii) the style of the signature and the handwriting of the date of execution of the alleged representative of the Company highly resembles those of Yaji on the same Letter of Confirmation;

(iv) the internal records of the Company do not show that the Company has executed or approved the Letter of Confirmation; and

(v) the former chairman and executive director, the former vice-chairman and executive director and the former chief executive officer of the relevant times have confirmed that (a) they had never seen or signed the Letter of Confirmation; (b) the Letter of Confirmation had never been tabled for discussion in any meetings of directors they attended and they had never passed any resolution in any meeting of directors of the Company to approve the Letter of Confirmation or authorised any person to represent the Company to sign the Letter of Confirmation; and (c) they are not aware of any person having signed the Letter of Confirmation for and on behalf of the Company.

The Company instructed a lawyer in the PRC to defend the two cases. Three hearings were held by the People's Court of Huadu District on 16 June 2014, 30 June 2014 and 15 August 2014 respectively. The Court did not make judgment at the close of the third hearing and will hand down the judgment later. At the date of this report, the judgment has not yet been handed down by the Court.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

40. LITIGATION AND CONTINGENT LIABILITIES (Continued)

In view of the above, the Directors are of the view that no provision for the claims of these legal proceedings is required to be made at this stage.

41. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in amounts due from the Unconsolidated Subsidiaries (note 23), amount due to a former director (note 25), amounts due to the Unconsolidated Subsidiaries (note 29) and elsewhere to the consolidated financial statements, the Group had the following material transactions with related parties during the year:

Name of parties	**Nature of transactions**	**2014** ***HK$'000***	2013 *HK$'000*
KIL (Note 1)	Interest on other borrowing	**5,466**	3,705
Koffman Corporate Service Limited ("KCSL") (Note 1)	Rental expenses	**480**	160
BSHK (Note 2)	Sales of products	**–**	(21)
	Legal and professional fee paid on behalf	**80**	—
	Disposal of property, plant and equipment	**–**	(603)
Lisun Plastic Factory Limited (Note 3)	Gain on disposal of property, plant and equipment	**–**	(53)

The following balance was outstanding at the end of the reporting periods:

Name of party	**Nature of transaction**	**2014** ***HK$'000***	2013 *HK$'000*
KIL (Note 1)	Other borrowing	**–**	(42,400)

Notes:

(1) Mr. Yu, an executive Director and the chairman of the Company, is the ultimate beneficial owner of KIL and KCSL. Details of the transactions were set out in note 31 to the consolidated financial statements. During the year, the KCSL's office was rented by the Company.

(2) BSHK was de-consolidated on 1 July 2011. Details of which were set out in note 2 to the consolidated financial statements.

(3) Mr. Wong Yue Kwan, Alan is the common director of Lisun Plastic Factory Limited and Blu Spa Group Limited, a wholly-owned subsidiary of the Group. He has resigned on 7 August 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

41. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Compensation for key management personnel

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

The Group

	2014	2013
	HK$'000	*HK$'000*
Short-term employee benefits	**921**	1,314
Post-employment benefits	**8**	15
	929	1,329

The remuneration of Directors and key management personnel is determined or proposed by the remuneration committee having regard to the performance of individuals and market trends.

42. EVENTS AFTER REPORTING PERIOD

Save as disclosed in elsewhere of the consolidated financial statements, the Group has the following events after reporting period:

(a) On 2 July 2014, New Cove Limited has successfully converted the convertible bonds in the principal amount of HK$25,000,000 into 25,000,000 shares and subscribed for or procure the subscription for the 12,500,000 offer shares allotted to it under its entitlement pursuant to the open offer.

42. EVENTS AFTER REPORTING PERIOD (Continued)

(b) On 25 June 2014, the Company announced to propose to raise approximately HK$57,718,000 before expenses by way of the open offer issuing 19,061,000 offer shares the on basis of one offer share for every two exiting shares held on 16 July 2014 and payable in full upon application at the subscription price of HK$3.00 per offer share. Please refer to the Company's announcement dated 25 June 2014 for details.

On 31 July 2014, being the latest time for acceptance of and payment for the offer shares, a total of 6 valid acceptances in respect of 13,589,428 offer shares provisionally allotted to the qualifying shareholders under the open offer have been received, representing approximately 71.29% of the total number of the 19,061,000 offer shares available for subscription under the open offer. Please refer to the Company's announcement dated 8 August 2014 for details.

The open offer of 13,589,428 offer shares was completed on 11 August 2014 and raised net proceeds of approximately HK$55,805,000 for the partial repayment of the outstanding debt of the Company.

(c) On 15 August 2014, the Company and Kingston Securities Limited entered into a conditional placing agreement, pursuant to which the Company has conditionally agreed to place, through Kingston Securities Limited on a best effort basis, 2,620,000 new shares of the Company to not fewer than six independent professional investors at a price of HK$3.15 per share. The new shares are allotted and issued pursuant to a general mandate granted to the Directors by resolution of the shareholders passed at the annual general meeting of the Company held on 8 November 2013, subject to the limit up to 20% of the then issued share capital of the Company of 1,312,200,000 shares of HK$0.1 each as at the date of passing the relevant resolution at the annual general meeting. Please refer to the Company's announcement dated 15 August 2014 for details.

The placing of 2,620,000 new shares was completed on 28 August 2014 and raised net proceeds of approximately HK$7,900,000, of which approximately HK$7,600,000 was applied to repay all the outstanding loan indebted to HK Builders and the remaining was applied for general working capital of the Group.

43. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2014 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Beachgold Assets Limited	British Virgin Islands/ Hong Kong	US$2	—	100	Inactive
Blu Spa Group Limited	British Virgin Islands/ Hong Kong	US$2,700	100	—	Investment holding
Kingsbury Asia Limited	British Virgin Islands/ Hong Kong	US$2	—	100	Inactive
EDS International Holdings Limited	British Virgin Island/ Hong Kong	US$1	100	—	Investment holding and holding of patent and trademarks/tradenames
EDS (China) Limited	Hong Kong	HK$1	—	100	Investment holding
EDS (Taiwan) Limited	Hong Kong	HK$1	—	100	Inactive
EDS (Asia) Limited	Hong Kong	HK$1	—	100	Marketing development, product distribution and customer support services
EDS Distribution Limited	Hong Kong	HK$1	—	100	Marketing development, product distribution and customer support services
西安伊菲丹化妝品銷售有限公司@	The PRC	HK$500,000	—	100	Dormant
China Honest	Hong Kong	HK100	—	51	Marketing development, product distribution and customer support services

@ Wholly-owned foreign enterprise

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2014	2013	**2014**	2013	**2014**	2013
				HK'000	*HK'000*	***HK'000***	*HK'000*
China Honest	Hong Kong	**49%**	—	**1,150**	—	**1,861**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

43. SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

China Honest

	2014 HK$'000	2013 HK$'000
Current assets	26,072	—
Non-current assets	14,148	—
Current liabilities	(36,277)	—
Non-current liabilities	(145)	—
Equity attributable to owners of the Company	1,937	—
Non-controlling interests	1,861	—

	For the period from 12 April 2014 to 30 June 2014 HK$'000	For the year ended 30 June 2013 HK$'000
Revenue	9,256	—
Profit for the period	2,347	—
Profit attributable to owners of the Company	1,197	—
Profit attributable to the non-controlling interests	1,150	—
Profit for the period	2,347	—
Dividend	—	—
Net cash inflow from operating activities	13,041	—
Net cash outflow from investing activities	(42)	—
Net cash outflow from financing activities	(127)	—
Net cash inflow	12,872	—

44. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 18 September 2014.

FINANCIAL SUMMARY

	FOR THE YEAR ENDED				
	2010	2011	2012	2013	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Results					
Turnover	99,662	53,400	702	8,140	**27,582**
Profit/(loss) for the year attributable to:					
— owners of the Company	27,113	(185,680)	(100,389)	(23,568)	**(11,768)**
— non-controlling interests	—	—	—	—	**1,150**
	27,113	(185,680)	(100,389)	(23,568)	**(10,618)**

Assets and liabilities

	AT 30 JUNE				
	2010	2011	2012	2013	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	278,156	134,210	57,679	53,831	**141,874**
Total liabilities	(90,291)	(24,440)	(32,206)	(51,917)	**(140,932)**
Non-controlling interests	—	—	—	—	**(1,861)**
Balance of shareholders' funds	187,865	109,770	25,473	1,914	**(919)**