# 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 (the "Company") 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.*

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# COMPANY INFORMATION

## BOARD OF DIRECTORS

*Executive Directors*
Mr. Chan Kin Wah, Billy *(Chairman)*
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. Chan Kin Wah, Billy

## AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

## AUTHORISED REPRESENTATIVES

Mr. Lee Chan Wah
Mr. Chan Kin Wah, Billy

## REMUNERATION COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Chan Kin Wah, Billy
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. Chan Kin Wah, Billy
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 HM11
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 Bermuda Law
Conyers Dill and Pearman

## WEBSITE

www.eds-wellness.com

## STOCK CODE

8176

# CHAIRMAN'S STATEMENT

Dear Shareholders,

During the period under review, the completion of the open offer and placing under general mandate as disclosed in the Company's announcement dated 25 June 2014 and 15 August 2014 respectively provided an opportunity for the Company to strengthen and broaden the capital base and ultimately improve the financial position of the Company. The performance of China Honest Enterprises Limited ("**China Honest**") met the expectation since the completion of its acquisition on 11 April 2014. Since then, China Honest is the major revenue contributor of the Group. The proposed subscription agreement entered into between the Company and six investors dated 17 February 2015 in relation to the issue of new ordinary shares and convertible preferred shares by the Company to these investors will provide an opportunity for the Group to raise a substantial amount of additional funds to further improve its financial position and liquidity and provide the Group with the financial flexibility necessary for 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.

**Chan Kin Wah, Billy**
*Chairman*

Hong Kong, 27 March 2015

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Following the resumption of the trading in the shares of the Company on 14 April 2014 and the completion of the capital reorganization of the Company on 13 May 2014, the Company on 22 May 2014 announced that the subscription for the convertible bonds (the "**Convertible Bonds**") in the principal amount of HK$40.0 million by New Cove Limited (the "**CB Subscriber**"), an indirect wholly-owned subsidiary of Eternity Investment Limited ("**Eternity**") of which its issued shares are listed on the Main Board of the Stock Exchange (Stock Code: 764), was completed. On 2 July 2014 and 30 September 2014, the CB Subscriber converted the Convertible Bonds in the principal amount of HK$25.0 million into 25,000,000 shares of the Company and HK$15.0 million into 15,000,000 shares of the Company respectively. Following the conversion of the Convertible Bonds, Eternity became the controlling shareholder of the Company.

The Group is principally engaged in the sale of beauty products and provision of therapy services. For the sale of beauty products, the Group offers a variety of beauty products under the brand name "Evidens de Beauté", and a variety of medical skincare products, including the brand "Activa". For the provision of therapy services, the Group operates a spa centre with the brand "La Spa Evidens de Beauté" to offer spa, facial sahos, body treatments and wellness massages services at Lyndhurst Terrace in Central and a medical skincare centre under the trade name "COLLAGEN+" at Soundwill Plaza in Causeway Bay.

For the purpose of reducing administrative expenses and audit fees of the Group, on 19 December 2014, the Company announced that the Company as vendor and Koffman Investment Limited ("**KIL**") as purchaser entered into a sale and purchase agreement pursuant to which the Company as vendor agreed to sell, and KIL as purchaser agreed to purchase the entire issued share capital of Blu Spa Group Limited ("**BSG**") at a nominal consideration of HK$1.00 payable in cash (the "**BSG Disposal**"). KIL is 50% owned by Mr. Yu Zhen Hua, Johnny, the chairman and a director of the Company, who resigned on 19 January 2015. BSG holds the entire equity interest in Blu Spa (Hong Kong) Limited, which in turn is an intermediate holding company of 7 subsidiaries (the "**BS Group**"). Blu Spa (Hong Kong) Limited is in the process of being wound up and joint liquidators have been appointed for the winding up of Blu Spa (Hong Kong) Limited. The assets and liabilities of the BS Group have not been consolidated into the consolidated financial statements of the Group. As at the date of the completion of the sale and purchase agreement, the BS Group was indebted to the Company in an amount of approximately HK$241.4 million, which was fully impaired in the consolidated financial statements of the Group for the year ended 30 June 2014. Given that the BS Group is severely insolvent, it is expected that no dividend will be distributed in respect of the equity interest in Blu Spa (Hong Kong) Limited. Such transaction constituted a connected transaction on the part of the Company under the GEM Listing Rules. As all the applicable percentage ratios under the GEM Listing Rules in respect of the BSG Disposal are less than 5% and the consideration is less than HK$3,000,000, the disposal is fully exempted from the connected transaction requirements under the GEM Listing Rules. The Group recognised a gain of approximately HK$1.4 million from the BSG Disposal. Details of the BSG Disposal were set out in the Company's announcement dated 19 December 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the performance of the sale of beauty products and provision of therapy services under the brand name of "Evidens de Beauté" was not satisfactory. Details were set out under the section headed "Occurrence of events that may have negative impact on the profit forecast for the 12-month period ending 30 June 2015" below.

For the period under review, the performance of China Honest has met the expectation of the management. China Honest contributed approximately HK$20.5 million to the turnover of the Group for the six months ended 31 December 2014 in which approximately HK$19.8 million and HK$0.7 million were derived from the provision of therapy services and sales of beauty products respectively. The gross profit margin for the six months ended 31 December 2014 was approximately 36.9%. The net profit for the six months ended 31 December 2014 was approximately HK$3.9 million of which, after deducting the amount of non-controlling interests, approximately HK$2.0 million was contributed to the Group's consolidated financial results for the six months ended 31 December 2014.

## FINANCIAL REVIEW

During the period under review, the Group recorded a turnover of approximately HK$22.1 million (for the year ended 30 June 2014: approximately HK$27.6 million), of which approximately HK$1.7 million (for the year ended 30 June 2014: approximately HK$16.5 million) and HK$20.4 million (for the year ended 30 June 2014: approximately HK$11.1 million) were generated from the sale of beauty products and provision of therapy services respectively.

China Honest, the 51% owned subsidiary, contributed approximately HK$20.5 million to the turnover of the Group, representing approximately 92.8% of the total turnover, of which approximately HK$0.7 million and HK$19.8 million were generated from the sale of beauty products and provision of therapy services respectively.

Other income of approximately HK$3.4 million (for the year ended 30 June 2014: approximately HK$4.9 million) was mainly contributed by the other interest income of approximately HK$1.6 million on overdue receivable in relation to the refundable deposits of approximately HK$39.1 million, the gain on BSG Disposal of approximately HK$1.4 million and the gain on reversal of impairment loss recognised in respect of trademark of approximately HK$0.4 million.

The gross profit margin was approximately 31.4% (for the year ended 30 June 2014: approximately 39.8%. China Honest contributed approximately HK$7.5 million to the gross profit of the Group, while the operations under the brand name of "Evidens de Beauté" recorded a gross loss of approximately HK$0.6 million.

The selling and distribution costs was approximately HK$0.9 million (for the year ended 30 June 2014: approximately HK$1.0 million). China Honest accounted for approximately 72.9% or HK$0.7 million of the total selling and distribution cost.

# MANAGEMENT DISCUSSION AND ANALYSIS

The administrative expenses was approximately HK$54.4 million (for the year ended 30 June 2014: approximately HK$18.4 million). The administrative expenses was mainly attributed to the impairment loss recognised in respect of other receivables in the sum of approximately HK$46.5 million. China Honest accounted for approximately 3.9% or HK$2.1 million of the total administrative expenses.

The finance costs of approximately HK$1.2 million (for the year ended 30 June 2014: approximately HK$6.7 million) was mainly attributed to (i) the loan interest expenses paid to Hong Kong Builders Finance Limited of approximately HK$0.4 million; (ii) the imputed interest arisen from the issuance of promissory notes of approximately HK$0.4 million; and (iii) the imputed interest arisen from the issuance of convertible bonds of approximately HK$0.4 million during the period under review.

The consolidated loss attributable to owners of the Company amounted to approximately HK$48.9 million for the six months ended 31 December 2014 (for the year ended 30 June 2014: HK$11.8 million). The loss attributable to owners of the Company was mainly attributed to the substantial decrease in the sale of personal care products under the brand name "Evidens de Beauté" and the impairment loss of approximately HK$46.5 million recognised in respect of other receivables.

## LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2014, the Group had total assets of approximately HK$90.4 million (30 June 2014: approximately HK$141.9 million), including cash and cash equivalents of approximately HK$26.6 million (30 June 2014: approximately HK$30.6 million).

During the period under review, the Group financed its operation with internally generated cash flows, proceeds from the issuance of new shares of the Company by way of open offer and placing.

## CAPITAL STRUCTURE

### (a) Convertible bonds

(i) On 22 May 2014, the Company issued the Convertible Bonds, in the principal of HK$40.0 million, to the CB Subscriber, pursuant to the subscription agreement entered into between the Company and the CB Subscriber dated 21 March 2013. 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. As stated the Company's circular dated 23 May 2013, the issuance of the Convertible Bonds will raise approximately HK$39.0 million (net of expenses), of which (a) HK$20.0 million will be used for the acquisition of a business similar to the existing business of the Group; (b) HK$4.0 million will be used for the settlement of the professional fees; and (c) HK$15.0 million will be used for the general working capital of the Group including the capital required for the development of the "Evidens de Beauté " distribution business.

(ii) On 2 July 2014, the CB Subscriber converted part of the Convertible Bonds in the principal amount of HK$25.0 million into 25,000,000 shares of the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

(iii) On 30 September 2014, the CB Subscriber converted the remaining part of the Convertible Bonds in the principal amount of HK$15.0 million into 15,000,000 shares of the Company.

(iv) As at 31 December 2014, (a) HK$15.0 million has been utilized for the acquisition of China Honest; (b) HK$4.0 million has been utilized for the settlement of professional fees; (c) HK$15.0 million has been utilized for general working capital of the Group including the capital required for the development of the "Evidens de Beauté " distribution business; and (iv) HK$5.0 million remained unutilised.

**(b) Open offer**

(i) On 11 August 2014, the Company allotted and issued 19,061,000 new shares at a subscription price of HK$3.0 per share by way of open offer to the qualifying shareholders of the Company on the basis of one new share for every two existing shares held on 16 July 2014 raising approximately HK$54.0 million (net of expenses), of which all the net proceeds is intended to be used for the repayment of the outstanding debt indebted to Hong Kong Builders Finance Limited by the Company. Details of the open offer were set out in the Company's announcements dated 25 June 2014 and 8 August 2014 and the Company's prospectus dated 17 July 2014.

(ii) As at 31 December 2014, all the net proceeds from the open offer were applied for the repayment of the loan due to Hong Kong Builders Finance Limited.

**(c) Placing**

(i) On 28 August 2014, the Company allotted and issued 2,620,000 new shares at a price of HK$3.15 per share by way of placing of new shares under general mandate raising HK$7.86 million (net of expenses) of which HK$7.54 million and HK$0.32 million is intended to be used for the repayment of the outstanding debt indebted to Hong Kong Builders Finance Limited by the Company and general working capital of the Group respectively. Details of the placing were set out in the Company's announcements dated 15 August 2014 and 28 August 2014.

(ii) As at 31 December 2014, the net proceeds HK$7.54 million has been utilized for the repayment of the outstanding debt indebted to Hong Kong Builders Finance Limited by the Company and HK$0.32 million remained unutilised.

(iii) The 2,620,000 new shares were allotted and issued to not less than six individual investors, who/which and its ultimate beneficial owner are third parties independent of and not connected or acting in concert with any Directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules).

(iv) The closing price of the shares was HK$3.73 per share as quoted on the Stock Exchange on 15 August 2014, being the date of the placing agreement.

# MANAGEMENT DISCUSSION AND ANALYSIS

(v) The net price to the Company of each new share under the placing was HK$3.00.

(d) As at 31 December 2014, the total borrowings and other financial liabilities of the Group amounted to approximately HK$10.4 million (30 June 2014: HK$106.0 million), representing:

(i) a borrowing from an independent third party of approximately HK$1.4 million, which is unsecured, non-interest bearing and repayable on demand;

(ii) a borrowing from KIL of approximately HK$2.45 million, which is unsecured, interest bearing at 5% per annum and maturing on 25 August 2015;

(iii) the liability component of approximately HK$6.07 million in respect of two promissory notes in the aggregate principal amount of HK$6.42 million, which are unsecured, non-interest bearing and maturing on 30 June 2015; and

(iv) the obligations under finance leases of approximately HK$0.46 million of which (a) HK$0.44 million is interest bearing at 3.00% per annum and secured by a guarantee from Hong Kong Government, a joint and several guarantee from a director of a subsidiary and an independent third party, and the Group's title to the leased assets, and (b) HK$0.02 million is non-interest bearing and secured by the Group's title to the leased assets.

## GEARING RATIO

The gearing ratio, expressed as percentage of total borrowings to total assets, was approximately 11.5% (30 June 2014: approximately 74.7%). The improvement of gearing ratio was mainly contributed by (i) the completion of the Open Offer and Placing enlarged the capital base of the Company; and (ii) the repayment of the borrowings indebted to Hong Kong Builders Finance Limited during the period under review.

## PLEDGE OF ASSETS

At 31 December 2014, the Group's restricted bank deposits of approximately HK$19,701,000 (30 June 2014: HK$19,663,000) were deposits held at banks in respect of credit card and instalment sales arrangement of its sale of beauty products and provision of therapy services business.

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMMITMENTS

As at 31 December 2014, the Group had operating lease commitments of approximately HK$4.5 million (30 June 2014: approximately HK$7.6 million).

## CONTINGENT LIABILITIES

As at 31 December 2014, save as disclosed in note (b) under the section headed "Litigation" below, the Group had no material contingent liabilities.

## EMPLOYEES

As at 31 December 2014, the Group had 55 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 have any significant investment during the six months ended 31 December 2014.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as the BSG Disposal 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 during the six months ended 31 December 2014.

## FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as the proposed development of new business as stated in the section headed "Outlook" below, the Group does not have any concrete plan for material investments or capital assets for the coming year.

## CHANGE OF FINANCIAL YEAR END DATE

On 15 October 2014, the Company announced that the financial year end date of the Company and the Group has been changed from 30 June to 31 December. As a result, the current financial year end date has been changed from 30 June to 31 December commencing from the financial year ended 31 December 2014. Detailed information was set out in the Company's announcement dated 15 October 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK

With a slump in Hong Kong retail sales by 14.60% in January 2015 from the same month last year, the management does not expect any growth in the Group's sale of beauty products and provision of therapy services in coming year. With a view to improve its profitability, the Company as issuer entered into a conditional subscription agreement with six investors (the "**Subscribers**") as subscribers relating to the Proposed Subscription (as defined below) on 17 February 2015. The Directors believes that the entering into of the conditional subscription agreement represents a good opportunity for the Group to (i) raise a substantial amount of additional funds for future business development in certain new business developments in a segment difference from the existing business of the Group, (ii) improve its financial position and liquidity, and (iii) leverage on the expertise and business network of one of the Subscribers to take advantage of the expected strong growth in the new business. The Proposed Subscription (as defined below) is conditional upon the fulfillment and/or waiver (as the case may be) of the conditions precedent set out in the conditional subscription agreement.

## OCCURRENCE OF EVENTS THAT MAY HAVE NEGATIVE IMPACT ON THE PROFIT FORECAST FOR THE 12-MONTH PERIOD ENDING 30 JUNE 2015

On 11 November 2014, the Company announced that due to the occurrence of certain events, it was anticipated that there may be a possible negative impact on the profit forecast for the 12-month period ending 30 June 2015 (the "**2015 Profit Forecast**") which was stated in the Appendix VI to the circular of the Company dated 21 March 2014 (the "**Circular**") in relation to the acquisition of 51% equity interest in and the shareholders' loan due by China Honest.

The 2015 Profit Forecast was made based on, amongst others, the following extracts of the basis and assumptions, which were also stated in the Appendix VI to the Circular:

(1). "The average growth rate on revenue of the Group would be...approximately 32.94% for the year ending 30 June 2015 as compared to year ending 30 June 2014 taking into account the retail sales derived from"Evidens de Beauté " products in the existing two point of sales at "La Spa Evidens" and World Trade Centre at Causeway Bay, the retail sales derived from "Blu Spa" products in the point of sales at Mikiki and wholesales derived from "Evidens de Beauté " products and "Blu Spa" products and the following new development plans of the Group:

a. a new shop is expected to be opened in May 2014 at Repulse Bay and a new beauty counter is expected to be opened in November 2014 at Tsimshatsui;

b. consignment sales and wholesales business at the shops of several renowned high fashioned brand in Hong Kong and on internet procured by the management;

c. new product line, "Extreme Line" of "Evidens de Beauté " products, will be/has been launched on the global market.

# MANAGEMENT DISCUSSION AND ANALYSIS

Based on the above expectations, the management estimated that the gross profit ratio of the Group...further increase to approximately 48.4% in the amount of approximately HK$15.4 million for the year ending 30 June 2015.

The major expenses of the Group will be the costs of sales and advertising and promotion expenses including the advertising, event and exhibition and free products or treatment to beauty reporters for promotion etc. As new shop and new beauty counter will be opened in 2014, the management expects that the administrative expenses of the Group will be increased ...for the year ending 30 June 2015 compared to the year ended 30 June 2013. The management also expects that the advertising and promotion expenses of the Group will also be increased for the year ending 30 June... 2015 as compared to that in the year ended 30 June 2013."

(2). "Extraordinary items to be incurred for the year ending 30 June 2015 include (i) interest income on overdue receivable in relation to a refundable deposit of approximately HK$3.13 million; (ii) professional fees regarding resumption and debt and assets recovery professional fees of approximately HK$0.15 million; (iv) interest expenses of loan from KIL and Eternity in an aggregate amount of approximately HK$5.7 million. It is expected that provisional tax payment of the Enlarged Group for the year ending 30 June 2015 will be approximately HK$1.59 million."

(3). "The Enlarged Group will be operated and developed as planned by the management of the Company."

(4). "There will be no material changes in existing political, legal, fiscal, foreign trade or economic condition in Hong Kong, Macau and the PRC in which the Group carries on business throughout the Forecast Period and no material changes in the laws, regulations and policies in Hong Kong, Macau and the PRC which affect the business that the Enlarged Group carries on throughout the Forecast Period."

(5). "There will be no disaster, natural, political or otherwise, which would materially disrupt the business or operations of the Enlarged Group or cause substantial loss, damage or destruction to its facilities throughout the Forecast Period."

(6). "There will be no interruption of the Enlarged Group's operations that will adversely affect the trading, financial and prospects of the Enlarged Group as a result of any other circumstances beyond management control."

# MANAGEMENT DISCUSSION AND ANALYSIS

Due to the occurrence of the following unforeseeable events ("**Events**"), it is anticipated that there will be deviations from the above basis and assumptions:

## DEVIATIONS FROM THE ABOVE BASIS AND ASSUMPTIONS (1), (3) & (6)

(A) The tenancy agreement for the point of sale at World Trade Centre was expired on 24 October 2014 without renewal as the Company and the landlord could not agree on the terms of the new tenancy agreement including the amount of the new rent. As a result, no revenue will be generated from this point of sales thereafter.

(B) No tenancy agreement for the new shop at Repulse Bay was entered into with the landlord as the Company and the landlord could not agree on the terms of the tenancy agreement especially the occupancy rate on the floor where the new shop is located. As a result, no revenue will be generated from this new shop at Repulse Bay.

(C) No tenancy agreement for the new beauty counter at Tsimshatsui was entered into with the landlord as the Company and the landlord could not agree on the terms of the tenancy agreement. As a result, no revenue will be generated from this new beauty counter at Tsimshatsui.

(D) Revenue derived from consignment basis is below expectation. The Company did not renew one of the consignment agreements with a consignee which was expired in June 2014".

(E) The sale derived from the wholesales business is below expectation.

As result of the occurrence of unforeseeable events (A) to (E) above, the sale of Evidens de Beauté products, the "Extreme Line" of the Evidens de Beauté products and sales from beauty treatment under the brand name of Evidens de Beauté may be adversely affected.

## DEVIATION FROM THE ABOVE BASIS AND ASSUMPTIONS (2)

(F) As the outstanding loans due to KIL and Eternity were respectively fully repaid by the Company before September 2014, the interest expenses to be incurred by these loans will be substantially reduced.

(G) As a result of the issue of promissory notes and convertible bonds on 11 April 2014 and 22 May 2014 respectively, imputed interest expenses will be incurred in respect of these financial instruments for the 12-month period ending 30 June 2015.

(H) As a result of the possible drop in revenue due to the unforeseeable events (A) to (E) above, it is anticipated that the provisional tax payment of the Enlarged Group for the 12-month period ending 30 June 2015 will be reduced.

# MANAGEMENT DISCUSSION AND ANALYSIS

## DEVIATIONS FROM THE ABOVE BASIS AND ASSUMPTIONS (4) & (5)

(I) The decline in growth of the number of Mainland visitors to Hong Kong and their spending power has affected the whole retail sector in Hong Kong in the recent quarters of 2014.

(J) The possible negative impact on the retail sector of Hong Kong due to the recent political event "Occupying Central" in Hong Kong.

(K) Due to (I) and (J), the Board has adopted a relatively conservative approach for its business operations and expansion which is deviated from the Board's original approach when making the 2015 Profit Forecast. Such conservative approach includes (i) closing down the existing high-rented retail shop in Causeway Bay (see (A) above) in order to minimize the rental expense and the administrative costs; and (ii) expanding the low-cost distribution channel by consignment sale. In June and August 2014, the Company has entered into two consignment contracts with two Independent Third Parties. The Board considers the new approach adopted by the Company will be beneficial to and in the interest of the Company and the shareholders in long run.

Taking into account of the deviations of basis and assumptions due to the Events above, the Board considers that, in overall view, there may be a possible negative impact on the 2015 Profit Forecast.

For the six months ended 31 December 2014, the Group recorded a loss after tax of the Group of approximately HK$47.04 million as compared to the forecast profit after tax of the Group of approximately HK$6.2 million in the same period as estimated in the 2015 Profit Forecast (the "**Deviation**"). The Deviation was mainly due to (i) a substantial decrease in the sale of beauty products and therapy services under the brand name of "Evidens de Beauté" for the 6-month period ended 31 December 2014; and (ii) an impairment loss of approximately HK$46.5 million recognised in respect of other receivables.

The actual revenue derived from the sale of beauty products under the brand name of "Evidens de Beauté" for the 6-month period ended 31 December 2014 was HK$1.0 million, accounting for approximately 7.9% of the forecast revenue for the same period of approximately HK$12.8 million. The actual revenue derived from the provision of the therapy services under the brand name "Evidens de Beauté" for the 6-month period ended 31 December 2014 was approximately HK$0.6 million, accounting for approximately 18.6% of the forecast revenue for the same period of approximately HK$3.3 million.

In addition, given that (i) Mr. Shum Yeung ("**Mr. Shum**") failed to settle the judgment debt and the accrued interest in the aggregate amount of approximately HK$46.5 million under the Judgment in High Court Action No. 1775 of 2012 and commenced various legal actions to prevent the Company from recovering the judgment debt and accrued interest including a fresh legal action as announced by the Company on 23 January 2015, (ii) it was unclear whether and when the Company would be able to receive the judgment debt and the accrued interest in full from selling (a) the charged shares in Mr. Shum's companies, and (b) the charged properties as those properties were held by Mr. Shum and another individual as joint tenants and subject to mortgages and the Company did not have the information of the financial status of Mr. Shum and his companies, the amount of Mr. Shum's interest

# MANAGEMENT DISCUSSION AND ANALYSIS

in the charged properties and the outstanding loan amounts under the mortgages, and (iii) the ability of Dutfield International Group Limited ("**Dutfield**") as a guarantor to Mr. Shum to fulfill its obligations under the guarantee depended on the outcome of the legal proceedings for, inter alia, its claim for the sum of approximately HK$141.4 million under a loan agreement but Dutfield failed to obtain a summary judgment against the debtor and the outcome of the legal proceedings is uncertain, an impairment loss of approximately HK$46.5 million in respect of other receivables was recognised at the end of the reporting period.

## EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2014 and up to the date of this report, the Group had the following material events:

(a) On 19 January 2015, Mr. Yu Zhen Hua, Johnny and Mr. Wang Shangzhong resigned as an executive Directors.

(b) On 23 January 2015, the Company received a writ of summons in the High Court Action No. 200 of 2015 issued by Mr. Shum as the plaintiff against the Company as the defendant for the following claims:

(i) the Judgment in High Court Action No. 1775 of 2012 dated 6 September 2013, is relating to which the Court of First Instance the High Court of Hong Kong adjudged that Mr. Shum (a) 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; and (b) shall pay the Company the costs of this action including the costs of and occasioned by the Company's application for summary judgment to be taxed if not agreed, entered against Mr. Shum be set aside;

(ii) loss and damages suffered by Mr. Shum as a result of the Judgement being obtained against him;

(iii) an order for discovery upon oath of all matters relating to the foregoing;

(iv) an order for payment of all sums found due to Mr. Shum together with the interest thereon at such rate and for such period as the High Court may deem just pursuant to the High Court Ordinance;

(v) the costs; and

(vi) further or other relief.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Company and the Directors are in the process of seeking legal advice in respect of the legal proceedings. No provision for the claims of such legal proceedings was made for the six months ended 31 December 2014.

(c) On 17 February 2015, the Company as issuer entered into the conditional subscription agreement with the Subscribers, which are independent third parties, as subscribers in relation to a proposed subscription of new ordinary shares and convertible preferred shares of the Company (the "**Subscription Shares**") by the Subscribers (the "**Proposed Subscription**"). Subject to satisfaction and/or waiver (as the case may be) of the terms and conditions set out in the conditional subscription agreement, the Subscribers, in aggregate, will hold more than 50% of the then voting rights in the Company. Pursuant to the conditional subscription agreement, one of the Subscribers who will subscribe for the largest portion of the Subscription Shares and who will own 42.86% of the ordinary shares of the Company in issue as enlarged by the allotment and issue of the Subscription Shares (assuming none of the convertible preferred shares of the Company to be subscribed by the Subscribers are converted) and 40.00% of the ordinary shares of the Company as enlarged by the allotment and issue of the Subscription Shares and upon conversion in full of the convertible preferred shares of the Company to be subscribed by the Subscribers, has undertaken that, following and subject to the completion of the conditional subscription agreement, it will make an unconditional mandatory general offer (the "**Offer**") in compliance with the Hong Kong Code on Takeovers and Mergers in cash for all the ordinary shares of the Company (other than those already owned by or agreed to be acquired by it and parties acting in concert with it including a certain number of the shares of the Company held by the Company's existing controlling shareholder (which is considered a party acting in concert with the Subscribers as a result of certain non-disposal undertakings between it and the Subscribers) in respect of which such existing controlling shareholder has undertaken not to accept the Offer). On 5 March 2015, the Company has submitted a draft joint announcement relating to the Proposed Subscription and the Offer to the Securities and Futures Commission and the Stock Exchange for review and vetting. As at the date of this report, the draft joint announcement is being reviewed by the Securities and Futures Commission and the Stock Exchange and is pending their clearance for publication.

## LITIGATION

(a) As disclosed in the Company's announcement 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, 3 May 2013 and 12 January 2015 respectively and the sub-section headed "Litigation" in the section headed "Management Discussion and Analysis" of the annual report dated 18 September 2014 for the year ended 30 June 2014 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 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 Action No. 1775 of 2012 by BSHK

# MANAGEMENT DISCUSSION AND ANALYSIS

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.

As Mr. Shum defaulted to settle the outstanding amount due to the Company, the Company applied to the High Court of Hong Kong Special Administrative Region (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 (the "**Court of First Instance**") 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 of First Instance 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 of First Instance 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 of First Instance 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 application by Mr. Shum for setting aside the Summary Judgment was dismissed by the Court of First Instance on 12 January 2015. On 14 January 2015, the Court of First Instance handed down an addendum for the grant of the Charging Orders and Garnishee Orders absolute. On 26 January 2015, Mr. Shum filed a summons for an application to vary the costs order nisi granted in the judgment dated 12 January 2015. A hearing of the summons was held on 10 March 2015. On 11 March 2015, the Court of First Instance handed down a judgment dismissing the application from Mr. Shum.

# MANAGEMENT DISCUSSION AND ANALYSIS

(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.

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 (equivalent to approximately HK$3,620,000) 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 in the aggregate amount of RMB2,865,507.90 (equivalent to approximately HK$3,620,000) and the default payment until the day of actual repayment (which is in the aggregate amount of RMB1,369,098.68 (equivalent to approximately HK$1,729,000) as at 31 January 2014), totalling RMB4,234,606.58 (equivalent to approximately HK$5,349,000);

(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 in the aggregate amount of RMB2,493.60 (equivalent to approximately HK$3,100) and the interest loss until the day of actual repayment (which is in the aggregate amount of RMB304.00 (equivalent to approximately HK$400) as at 31 January 2014), totalling RMB2,797.60 (equivalent to approximately HK$3,500);

(iii) order the appraisal fee of RMB7,500.00 (equivalent to approximately HK$10,000) for the security for the application for preservation of property be borne jointly by Yaji and the Company; and

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

# MANAGEMENT DISCUSSION AND ANALYSIS

(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. 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 Company 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.

Three hearings were held by the People's Court of Huadu District on 16 June 2014, 30 June 2014 and 15 August 2014 respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

With reference to the announcements of the Company dated 29 September 2014, 3 December 2014 and 20 January 2015, on 24 September 2014, the Group received the judgments of the Civil Proceedings (the "**Judgments**") issued by the People's Court of Huadu District, Guangzhou City on 19 September 2014, Guangdong Province of the People's Republic of China (the "**People's Court**"), pursuant to which, the People's Court made the following principal orders:

(i) order Yaji to pay to Yiying within 10 days from the date of the Judgments the outstanding management fees in the total sum of RMB2,616,333.30 (equivalent to HK$3,304,000) and the default payment until the day of actual repayment;

(ii) dismiss the claims against the Company set out in the Writs of Civil Proceedings.

Pursuant to the Judgments, Yaji and Yiying may, within 15 days from receipt of the Judgments, lodge an appeal to the Intermediate People's Court of Guangzhou City, Guangdong Province of the People's Republic of China against the Judgments and the Company may, within 30 days from receipt of the Judgments, lodge an appeal to the Intermediate People's Court of Guangzhou City, Guangdong Province of the People's Republic of China against the Judgments.

On 3 December 2014, the Company issued an announcement in which the Company has been informed by its PRC legal advisers that Yaji has filed appeals (the "**Appeals**") against the Judgments and the hearing for the Appeals is fixed on 11 December 2014. Yiying has not filed any appeals against the Judgments.

On 20 January 2015, the Company issued an announcement that the Appeals were dismissed by the Intermediate People's Court of Guangzhou City, Guangdong Province of the People's Republic of China (the "**Intermediate People's Court**") on 14 January 2015 according to the relevant judgments received by the PRC legal advisers to the Company from the Intermediate People's Court in the afternoon on 19 January 2015. As such, no provision for the outstanding management fees and utilities and miscellaneous fees was made in the consolidated financial statements of the Group for the six months ended 31 December 2014.

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

## EXECUTIVE DIRECTORS

Mr. Chan Kin Wah, Billy ("**Mr. Chan**"), aged 52, joined the Company as an executive Director on 5 August 2014 and was appointed as the chairman of the Company (the "**Chairman**") on 19 January 2015. He is also the chairman of the special investigation committee of the Company (the "**Special Investigation Committee**") and a member of both the nomination committee (the "**Nomination Committee**") and remuneration committee (the "**Remuneration Committee**") of the Company. He 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. Lee Chan Wah ("**Mr. Lee**"), aged 46, was firstly appointed as the company secretary on 13 February 2012 and further appointed as executive Director on 16 August 2012. He resigned as the company secretary on 9 September 2013 and is presently the authorized representative of the Company. Mr. Lee has over 20 years of experience in the field of auditing, accounting 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 20 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 is 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. 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 51, 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 25 years of experience in auditing, accounting and financial management for both private and listed corporations. He graduated from the University of Hong Kong with a Master Degree in

# DIRECTORS AND SENIOR MANAGEMENT PROFILE

Business Administration. Mr. Chu is a fellow practising member of the Hong Kong Institute of Certified Public Accountants (FCPA (Practising)) and fellow member of the Association of Chartered Certified Accountants (FCCA). He is also an associate member of both the Institute of Chartered Secretaries and Administrators (ACIS) and the Hong Kong Institute of Chartered Secretaries (ACS). Mr. Chu is an executive director and deputy chairman 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.

Mr. Tse Joseph ("**Mr. Tse**"), aged 39, 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 Hong Kong Institute of Certified Public Accountants.

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the six months ended 31 December 2014.

## CHANGE OF FINANCIAL YEAR END DATE

Pursuant to the Directors' resolution announced on 15 October 2014, the Company changed its financial year end date from 30 June to 31 December.

## PRINCIPAL ACTIVITIES

The Company acts as an investing holding company. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements. There was no significant change in the principal activities of the Company during the period under review.

## RESULTS AND APPROPRIATIONS

Details of the Group's results for six months ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 39 of this report.

The Directors do not recommend the payment of any dividend for the six months ended 31 December 2014 (for the year ended 30 June 2014: Nil).

## FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the past four financial years ended 30 June 2014 and the six months ended 31 December 2014 are set out on page 130 of this report.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the period are set out in note 25 to the consolidated financial statements.

# DIRECTORS' REPORT

## RESERVES

Details of the movement in the reserves of the Group and the Company during the period are set out in the consolidated statement of changes in equity on page 45 and note 37 to the consolidated financial statements respectively.

## DISTRIBUTABLE RESERVE

The Company did not have any reserves available for distribution to the shareholders of the Company as at 31 December 2014 (as at 30 June 2014: Nil).

## EVENTS AFTER REPORTING PERIOD

Details of significant events occurred after the reporting period are set out in note 46 to the consolidated financial statements.

## CHARITABLE DONATIONS

The Group did not make any charitable donations during the period (for the year ended 30 June 2014: Nil).

## DIRECTORS

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

*Executive Directors*

| | |
|---|---|
| Mr. Chan | (appointed on 5 August 2014 and appointed as the Chairman on 19 January 2015) |
| Mr. Lee | |
| Mr. Yu Zhen Hua Johnny | (resigned on 19 January 2015) |
| Mr. Wang Shangzhong | (resigned on 19 January 2015) |

*Independent non-executive Directors*

Mr. Tam
Mr. Chu
Mr. Tse

In accordance with the bye-laws of the Company (the "**Bye-laws**"), Mr. Chu Kin Wang, Peleus and Mr. Tam B Ray, Billy shall retire from office by rotation at the forthcoming annual general meeting (the "AGM"). Being eligible, each of Mr. Chu Kin Wang Peleus, and Mr. Tam B Ray, Billy will offer himself for re-election as an independent non-executive Director at the AGM.

# DIRECTORS' REPORT

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

## DIRECTORS' SERVICE CONTRACTS

None of the Director 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 period under review, in respect of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors to be independent during the six months ended 31 December 2014.

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

As at 31 December 2014, none of the Directors and chief executives 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 period was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the 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 Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

# DIRECTORS' REPORT

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board (the "**Board**") of the Company on the basis of their job responsibilities, work performance, professional experience and prevailing industry practices.

The emoluments of the Directors are decided by the Board with reference to the recommendations from the Remuneration Committee, have regard to the Company's operation results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible participants.

Details of the emoluments of Directors and employees of the Group are set out in note 12 and note 13 to the consolidated financial statements respectively.

## COMPETING INTERESTS

As at 31 December 2014, none of the Directors, substantial shareholders of the Company nor any of their respective associates (as defined under the GEM Listing Rules) had any interest in a business which causes or may cause 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 31 December 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 (Note 1) | Interest of controlled corporation (Note 1) | 52,500,000 (Note 1) | — | 52,500,000 (Note 1) | 70.18% (Note 2) |

# DIRECTORS' REPORT

*Notes:*

1. New Cove Limited ("New Cove") is interested in 52,500,000 shares of the Company. 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 74,803,000 shares of the Company in issue as at 31 December 2014.

Save as disclosed above, as at 31 December 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 7 November 2014, the Company adopted a new share option scheme (the "New Share Option Scheme") at the annual general meeting held on the even date. The adoption of the New Share Option Scheme is 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.

During the period under review, no option was issued under the New Share Option Scheme.

## RETIREMENT BENEFIT SCHEMES

Particulars of the retirement benefit schemes of the Group are set out in note 41 to the consolidated financial statements.

# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

During the period under review, the aggregate purchases attributable to the Group's largest supplier accounted for approximately 18% (for the year ended 30 June 2014: 54%) of the Group's total purchase for the period and the five largest suppliers taken together accounted for approximately 61% (for the year ended 30 June 2014: 84%) of the Group's total purchase for the period.

The five largest customers of the Group in aggregate accounted for less than 10% of the total sales.

None of the Directors, their associates, or any shareholder of the Company (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 period 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 42 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.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## 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 Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the six months ended 31 December 2014.

# DIRECTORS' REPORT

## CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 30 to 36 of this report.

## AUDITORS

HLB Hodgson Impey Cheng Limited retires and being eligible, offers 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.

On behalf of the Board

**Chan Kin Wah, Billy**
*Chairman*

Hong Kong, 27 March 2015

# 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.

During the period 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

The Company has adopted a "Code for Securities Transactions for Directors" and "Code for Securities Transactions for Relevant Employees" regarding Directors' and relevant employees' securities transactions to comply with the relevant code provision. Having made specific enquiry of all the Directors, all directors have confirmed that they have complied with such code and the required standard of dealings on Directors' securities transactions during the six months ended 31 December 2014.

## 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. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

# CORPORATE GOVERNANCE REPORT

### Composition

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

*Executive Directors*
Mr. Chan *(Chairman)*
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 of the Company are set out in the section of Directors and Senior Management Profile on pages 21 to 22 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 of the Company 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 33 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.

# CORPORATE GOVERNANCE REPORT

### 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. All Directors are given an opportunity to attend and include matters in the agenda for discussion. During the period under review, at least 14 days' notice are given to all Directors of a regular board meeting in order to comply with the relevant 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 34 of this report.

### Directors' Training

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 to comply with relevant code provision.

## 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.

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. Chan who is the Chairman 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.

## NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Code provision stipulates that non-executive directors should be appointed for a specific term, subject to re-election. During the period 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.

The Company has received annual written confirmations from Mr. Tam, Mr. Chu and Mr. Tse, being the independent non-executive Directors during the period under review, in respect of their independence pursuant to the GEM Listing Rules. The Company considers the independent non-executive Directors to be independent.

# CORPORATE GOVERNANCE REPORT

## 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 31 December 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. Chan.

During the period under review, the remuneration committee held one meeting.

### 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 31 December 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. Chan.

The Nomination Committee held one meeting during the six months ended 31 December 2014.

### 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 31 December 2014, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Chu (chairman of the committee), Mr. Tam and Mr. Tse.

# CORPORATE GOVERNANCE REPORT

The Audit Committee held 2 meetings during the six months ended 31 December 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 final results for the six months ended 31 December 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 six months ended 31 December 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 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Mr. Chan (appointed on 5 August 2014) | 8/8 | — | — | — | 1/1 |
| Mr. Lee | 11/11 | — | — | — | 1/1 |
| Mr. Yu Zhen Hua, Johnny (resigned on 19 January 2015) | 11/11 | — | 1/1 | 1/1 | 0/1 |
| Mr. Wang Shanzhong (resigned on 19 January 2015) | 7/11 | — | — | — | 1/1 |
| **Independent non-executive Directors** | | | | | |
| Mr. Tam | 11/11 | 2/2 | — | 1/1 | 0/1 |
| Mr. Chu | 11/11 | 2/2 | 1/1 | 1/1 | 0/1 |
| Mr. Tse | 11/11 | 2/2 | 1/1 | — | 1/1 |

# CORPORATE GOVERNANCE REPORT

## ATTENDANCE OF GENERAL MEETING

Pursuant to code provision E.1.2 of the CG Code and Report, the chairman of the board should attend the annual general meeting of the Company and he should invite the chairman of the audit committee, the remuneration committee, the nomination committee and any other committees (as appropriate) to attend. Pursuant to code provision A.6.7 of the CG Code and Report, independent non-executive director and other non-executive directors should attend the general meetings of the Company. During the six months ended 31 December 2014, the annual general meeting of the Company held on 7 November 2014 (the "**2014 AGM**"), all the Directors except Mr. Yu Zhen Hua, Johnny (the chairman and an executive Director), Mr. Chu Kin Wang, Peleus (an independent non-executive Director) and Mr. Tam B Ray, Billy (an independent non-executive Director) were unable to attend the annual due to their other business engagement.

## AUDITORS' REMUNERATION

During the period under review, the remuneration in respect of audit and non-audit services provided by the Company's auditor, HLB Hodgson Impey Cheng Limited, is set out below:

| **Services rendered** | **Fee paid/ payable** *HK$'000* |
|---|---|
| Audit services | 500 |
| Non-audit services | |
| — Taxation services | 26 |

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial period and to ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements. The directors of the Company, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## 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 of the Company and the assets of the Company.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

Annual report, interim report and quarterly reports offer comprehensive information to the shareholders of the Company on operational and financial performance whereas annual general meetings provide a forum for the shareholders of the Company to exchange views directly with the Boards. The general meetings of the Company provide an opportunity for communication between the shareholders of the Company and the Board. Two executive Directors and a member of the Audit Committee attended the 2014 AGM to answer questions at the meeting.

According to the Bye-laws, any one or more shareholders of the Company 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 of the Company 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 of the Company 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 the shareholders of the Company and in particular, through annual general meetings and other general meetings.

# INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF**
**EDS WELLNESS HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

We have audited the consolidated financial statements of EDS Wellness Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 39 to 129, which comprise the consolidated and company statements of financial position at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months period from 1 July 2014 to 31 December 2014, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

# INDEPENDENT AUDITORS' REPORT

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

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

## BASIS FOR QUALIFIED OPINION

### Opening balances and corresponding figures

The opening balances and corresponding figures disclosed in the consolidated financial statements are based on the audited consolidated financial statements of the Group and the Company for the year ended 30 June 2014 in respect of which our audit opinion dated 18 September 2014 expressed a disclaimer opinion. The matters which resulted in that the disclaimer opinion included (1) investment in unconsolidated subsidiaries, (2) balances with the unconsolidated subsidiaries, (3) Other receivable and (4) opening balances and corresponding figures. Therefore, the opening balances and corresponding figures shown may not be comparable and any adjustments to the opening balances at 1 July 2014 would have consequential effect on the loss for the six months ended 31 December 2014 and/or the net assets of the Group and the Company at 31 December 2014.

## QUALIFIED OPINION

In our opinion, except for the effect on the consolidated financial statements of the matters described in the "Basis for Qualified Opinion" paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2014, and of the Group's loss and cash flows for the six months period from 1 July 2014 to 31 December 2014 in accordance with Hong Kong Financial Reporting Standards and 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, 27 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2014

| | Notes | **(Six months) 01.07.2014 to 31.12.2014 *HK$'000*** | (Twelve months) 01.07.2013 to 30.06.2014 *HK$'000* |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | *7* | **22,084** | 27,582 |
| Cost of sales | | **(15,155)** | (16,597) |
| Gross profit | | **6,929** | 10,985 |
| Other income | *9* | **3,408** | 4,949 |
| Selling and distribution costs | | **(942)** | (996) |
| Administrative expenses | | **(7,922)** | (18,325) |
| Impairment loss in respect of other receivables | *23* | **(46,519)** | (80) |
| Loss from operations | *10* | **(45,046)** | (3,467) |
| Finance costs | *11* | **(1,170)** | (6,664) |
| Loss before taxation | | **(46,216)** | (10,131) |
| Income tax expense | *14* | **(827)** | (487) |
| **Loss for the period/year from continuing operations** | | **(47,043)** | (10,618) |
| **Discontinued operations** | | | |
| Profit for the period/year from discontinued operations | *15* | **—** | — |
| **Loss for the period/year** | | **(47,043)** | (10,618) |
| **Other comprehensive income for the period/year, net of income tax** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translating foreign operations | | **1** | 1 |
| Other comprehensive income for the period/year | | **1** | 1 |
| **Total comprehensive expenses for the period/year** | | **(47,042)** | (10,617) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2014

| | Note | (Six months) 01.07.2014 to 31.12.2014 HK$'000 | (Twelve months) 01.07.2013 to 30.06.2014 HK$'000 |
|---|---|---|---|
| **Loss for the period/year attributable to:** | | | |
| **Owners of the Company** | | **(48,939)** | (11,768) |
| **Non-controlling interests** | | **1,896** | 1,150 |
| | | **(47,043)** | (10,618) |
| **Total comprehensive expenses for the period/ year attributable to:** | | | |
| **Owners of the Company** | | **(48,938)** | (11,767) |
| **Non-controlling interests** | | **1,896** | 1,150 |
| | | **(47,042)** | (10,617) |
| **Loss per share** | 16 | | |
| **From continuing operations** | | | |
| Basic and diluted | | **HK(78.71) cents** | HK(89.68) cents |
| **From discontinued operations** | | | |
| Basic and diluted | | **N/A** | N/A |
| **From continuing and discontinued operations** | | | |
| Basic and diluted | | **HK(78.71) cents** | HK(89.68) cents |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| | Notes | 31.12.2014 HK$'000 | 30.06.2014 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **12,649** | 14,846 |
| Intangible asset | 19 | **—** | — |
| Goodwill | 20 | **18,266** | 18,266 |
| Restricted bank deposits | 24 | **—** | 7,147 |
| | | **30,915** | 40,259 |
| **Current assets** | | | |
| Inventories | 21 | **1,923** | 2,614 |
| Trade receivables | 22 | **5,546** | 5,238 |
| Deposits, prepayments and other receivables | 23 | **5,728** | 50,614 |
| Restricted bank deposits | 24 | **19,701** | 12,516 |
| Cash and cash equivalents | 24 | **26,553** | 30,633 |
| | | **59,451** | 101,615 |
| **Total assets** | | **90,366** | 141,874 |
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 25 | **7,480** | 1,312 |
| Reserves | | **37,819** | (2,231) |
| **Equity attributable to owners of the Company** | | **45,299** | (919) |
| Non-controlling interests | | **3,757** | 1,861 |
| **Total equity** | | **49,056** | 942 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| | Notes | 31.12.2014 HK$'000 | 30.06.2014 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amount due to a former director | 26 | **64** | 64 |
| Trade payables | 27 | **210** | 399 |
| Accruals and other payables | 28 | **5,080** | 10,185 |
| Other borrowings | 29 | **3,850** | 1,833 |
| Promissory notes | 30 | **6,069** | 12,718 |
| Tax payable | | **1,502** | 613 |
| Deposits from customers | 32 | **80** | 94 |
| Deferred revenue | 33 | **24,000** | 21,869 |
| Obligations under finance leases | 34 | **444** | 588 |
| | | **41,299** | 48,363 |
| **Non-current liabilities** | | | |
| Other borrowings | 29 | **—** | 61,000 |
| Convertible bonds | 31 | **—** | 29,712 |
| Obligations under finance leases | 34 | **11** | 160 |
| Deferred taxation | 35 | **—** | 1,697 |
| | | **11** | 92,569 |
| **Total liabilities** | | **41,310** | 140,932 |
| **Total equity and liabilities** | | **90,366** | 141,874 |
| **Net current assets** | | **18,152** | 53,252 |
| **Total assets less current liabilities** | | **49,067** | 93,511 |

The consolidated financial statements were approved and authorised for issued by the Board of Directors on 27 March 2015 and are signed on its behalf by:

**Chan Kin Wah, Billy**
*Director*

**Lee Chan Wah**
*Director*

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

# STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| | Notes | **31.12.2014** **HK$'000** | 30.06.2014 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **7** | 8 |
| Interests in subsidiaries | 36 | **43,217** | 42,471 |
| | | **43,224** | 42,479 |
| **Current assets** | | | |
| Deposits, prepayments and other receivables | 23 | **1,689** | 46,492 |
| Cash and cash equivalents | 24 | **12,694** | 23,355 |
| | | **14,383** | 69,847 |
| **Total assets** | | **57,607** | 112,326 |
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 25 | **7,480** | 1,312 |
| Reserves | 37 | **40,071** | (876) |
| **Total equity** | | **47,551** | 436 |

# STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| | Notes | 31.12.2014 HK$'000 | 30.06.2014 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amount due to a former director | 26 | **64** | 64 |
| Accruals and other payables | 28 | **3,923** | 6,266 |
| Other borrowings | 29 | **—** | 433 |
| Promissory notes | 30 | **6,069** | 12,718 |
| | | **10,056** | 19,481 |
| **Non-current liabilities** | | | |
| Other borrowings | 29 | **—** | 61,000 |
| Convertible bonds | 31 | **—** | 29,712 |
| Deferred taxation | 35 | **—** | 1,697 |
| | | **—** | 92,409 |
| **Total liabilities** | | **10,056** | 111,890 |
| **Total equity and liabilities** | | **57,607** | 112,326 |
| **Net current assets** | | **4,327** | 50,366 |
| **Total assets less current liabilities** | | **47,551** | 92,845 |

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2015 and are signed on its behalf by:

**Chan Kin Wah, Billy**
*Director*

**Lee Chan Wah**
*Director*

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2014

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Merger reserve** HK$'000 *(Note a)* | **Contributed surplus** HK$'000 *(Note b)* | **Convertible bonds reserve** HK$'000 *(Note c)* | **Translation reserve** HK$'000 *(Note d)* | **Accumulated losses** HK$'000 | **Sub-total** HK$'000 | **Non-controlling interests** HK$'000 | **Total equity** HK$'000 |
| At 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 acquisition of a subsidiary *(note 38)* | — | — | — | — | — | — | — | — | 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 and 1 July 2014 | 1,312 | — | 22,734 | 27,141 | 8,934 | 10 | (61,050) | (919) | 1,861 | 942 |
| Loss for the period | — | — | — | — | — | — | (48,939) | (48,939) | 1,896 | (47,043) |
| Other comprehensive income for the period: | | | | | | | | | | |
| Exchange differences on translating foreign operations | — | — | — | — | — | 1 | — | 1 | — | 1 |
| Total comprehensive expenses for the period | — | — | — | — | — | 1 | (48,939) | (48,938) | 1,896 | (47,042) |
| Conversion of convertible bonds | 4,000 | 36,658 | — | — | (8,934) | — | — | 31,724 | — | 31,724 |
| Open offer of new shares | 1,906 | 55,277 | — | — | — | — | — | 57,183 | — | 57,183 |
| Placing of new shares | 262 | 7,991 | — | — | — | — | — | 8,253 | — | 8,253 |
| Share issue expenses | — | (2,004) | — | — | — | — | — | (2,004) | — | (2,004) |
| Transfer to accumulated losses upon disposal of a subsidiary | — | — | (22,734) | — | — | — | 22,734 | — | — | — |
| **At 31 December 2014** | **7,480** | **97,922** | **–** | **27,141** | **–** | **11** | **(87,255)** | **45,299** | **3,757** | **49,056** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2014

*Notes:*

**(a) 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. Blu Spa Group Limited had been disposed during the period and therefore the merger reserve had been transferred to accumulated losses.

**(b) Contributed surplus**

Pursuant to the Company Act 1981 of Bermuda and the special resolution passed at the extraordinary general meeting held on 28 February 2013, transfer a sum of HK$175,357,000 from share premium account to the contributed surplus account was approved. The directors of the Company further approved to transfer a sum of HK$278,124,000 from contributed surplus account to accumulated losses account for the purpose of setting off against the accumulated losses.

**(c) Convertible bonds reserve**

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

**(d) Translation reserve**

Exchange differences relating to the translation of the results and 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 six months ended 31 December 2014

| | Notes | **(Six months) 01.07.2014 to 31.12.2014** ***HK$'000*** | (Twelve months) 01.07.2013 to 30.06.2014 *HK$'000* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before taxation from continuing operations | | **(46,216)** | (10,131) |
| Profit before taxation from discontinued operations | 15 | **—** | — |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | 18 | **2,321** | 2,724 |
| Gain on disposal of a subsidiary | 9 | **(1,359)** | — |
| Gain on disposal of property, plant and equipment | 9 | **(9)** | (183) |
| Impairment loss recognised in respect of other receivables | 10 | **46,519** | 80 |
| Interest expenses | | **1,170** | 6,664 |
| Interest income | | **(1,641)** | (4,749) |
| Loss on disposal of property, plant and equipment | 10 | **—** | 1,816 |
| Reversal of impairment loss in respect of intangible asset | 19 | **(350)** | — |
| Written down of property, plant and equipment | 10 | **322** | 8 |
| Written off of deposits, prepayments and other receivables | 10 | **—** | 6 |
| Written off of inventories | 10 | **1** | 6 |
| Written off of trade receivables | 10 | **—** | 2 |
| Operating cash flows before movements in working capital | | **758** | (3,757) |
| Decrease/(increase) in inventories | | **690** | (854) |
| Increase in trade receivables | | **(308)** | (1,171) |
| Decrease/(increase) in deposits, prepayments and other receivables | | **295** | (884) |
| (Decrease)/increase in trade payables | | **(189)** | 236 |
| Decrease in deposits from customers | | **(14)** | (364) |
| Increase in deferred revenue | | **2,131** | 859 |
| (Decrease)/increase in accruals and other payables | | **(3,746)** | 462 |
| Cash used in operations | | **(383)** | (5,473) |
| Interest paid | | **(876)** | (5,494) |
| **Net cash used in operating activities** | | **(1,259)** | (10,967) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2014

| | Notes | (Six months) 01.07.2014 to 31.12.2014 HK$'000 | (Twelve months) 01.07.2013 to 30.06.2014 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **63** | 16 |
| Net cash outflow of acquisition of a subsidiary | 38 | **—** | (2,663) |
| Placement of restricted bank deposits | | **(38)** | (12,516) |
| Proceeds from disposal of property, plant and equipment | | **30** | 726 |
| Purchase of property, plant and equipment | | **(467)** | (4,108) |
| **Net cash used in investing activities** | | **(412)** | (18,545) |
| **FINANCING ACTIVITIES** | | | |
| Net proceeds from issue of new shares | | **63,433** | — |
| Proceeds from issue of convertible bonds | | **—** | 40,000 |
| Proceeds from other borrowings | | **2,450** | 72,500 |
| Repayment of obligations under finance leases | | **(293)** | (271) |
| Repayment of other borrowings | | **(61,000)** | (53,900) |
| Repayment of promissory notes | 30 | **(7,000)** | — |
| **Net cash (used in)/generated from financing activities** | | **(2,410)** | 58,329 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(4,081)** | 28,817 |
| **Cash and cash equivalents at the beginning of period/year** | | **30,633** | 1,815 |
| **Effect of foreign exchange rate changes** | | **1** | 1 |
| **Cash and cash equivalents at the end of period/year** | | **26,553** | 30,633 |
| **Analysis of the balances of cash and cash equivalents** | | | |
| Cash at bank and on hand | 24 | **26,553** | 30,633 |
| Restricted bank deposits | 24 | **19,701** | 19,663 |
| | | **46,254** | 50,296 |
| *Less:* restricted bank deposits | | **(19,701)** | (19,663) |
| Included in cash and cash equivalents per the consolidated statement of financial position | | **26,553** | 30,633 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 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**"). Its ultimate holding company is Eternity Investment Limited ("**Eternity**"), a company incorporated in Bermuda and its shares are listed on the Main Board of 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 36.

## 2. BASIS OF PREPARATION OF THE CONSOLIDATED 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 ("**Int**") issued by the Hong Kong Institute of Certified Public Accountants (the "**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 Rules Governing the Listing Securities on the GEM of the Stock Exchange (the "**GEM Listing Rules**") and by 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 is 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 2. BASIS OF PREPARATION OF THE CONSOLIDATED 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 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**") have not provided complete documentary information and reasonable explanation in respect of the transactions asserted to have been undertaken since 1 July 2011. The directors of the Company have not been able to obtain complete documentary information to satisfy themselves regarding the accounting treatments in respect of those transactions since then.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

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

### Investments in unconsolidated subsidiaries (Continued)

Given these circumstances, the directors of the Company 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 accumulated impairment losses of approximately HK$241,426,000 and HK$238,462,000 were recorded 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 of the Company, the consolidated financial statements for the year ended 30 June 2014 was 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.

On 19 December 2014, the Company entered into a sale and purchase agreement to dispose of the entire issued share capital of Blu Spa Group Limited ("**BSG** ") to Koffman Investment Limited ("**KIL**"), the issued share of which is 50% owned by Mr. Yu Zhen Hua, Johnny ("**Mr. Yu**"), the chairman and a director of the Company, who resigned on 19 January 2015, at a cash consideration of HK$1. BSG is the intermediate holding company of the Unconsolidated Subsidiaries. The disposal was completed on 19 December 2014. Given these circumstances, the Company presented the amounts due from Unconsolidated Subsidiaries as other receivables at 31 December 2014.

### Change of financial year-end date

During the current financial period, the reporting period end date of the Group was changed from 30 June to 31 December because the directors of the Company determined to bring the annual reporting period end date of the Group in line with that of the ultimate holding company. Accordingly, the consolidated financial statements for the current period covered the six months period ended 31 December 2014. The corresponding comparative amounts shown on the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes covered a twelve months period from 1 July 2013 to 30 June 2014 and therefore may not be comparable with amounts shown for current period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

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

In the current period, the Group has applied for the first time, the following new and revised standards and Int issued by the HKICPA (collectively referred to as "**new and revised HKFRSs**"), which are effective for the Group's financial period beginning on 1 July 2014. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

| | |
|---|---|
| HKFRS 10, HKFRS 12 and HKAS 27 (Amendments) | Investment Entities |
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2010–2012 Cycle |
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2011–2013 Cycle |
| HKAS 19 (Amendments) | Defined Benefit Plans: Employee Contributions |
| HKAS 32 (Amendments) | Presentation — Offsetting Financial Assets and Financial Liabilities |
| HKAS 39 (Amendments) | Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting |
| HK(IFRIC)—Int 21 | Levies |

The Group has early applied the amendments to HKAS 36 *Recoverable Amount Disclosures for Non- Financial Assets*, which is effective for annual periods beginning on or after 1 January 2014, in the financial year ended 30 June 2014.

### Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* for the first time in the current period. The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

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

**Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*** (Continued)

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

**Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities***

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current period. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

**Amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting***

The Group has applied the amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* for the first time in the current period. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

### HK (IFRIC) — Int 21 *Levies*

The Group has applied HK(IFRIC) — Int 21 *Levies* for the first time in the current period. HK(IFRIC) — Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

HK(IFRIC) — Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

### Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*

The Group has applied the amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions* for the first time in the current period. The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The amendments have been applied retrospectively. As the Group does not have any defined benefit plans, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

### *Annual Improvements to HKFRSs 2010–2012 Cycle*

The Group has applied the *Annual Improvements to HKFRSs 2010–2012 Cycle* for the first time in the current period. The *Annual Improvements to HKFRSs 2010–2012 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

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

***Annual Improvements to HKFRSs 2010–2012 Cycle*** (Continued)

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value of each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit or loss. The amendments to HKFRS 3 are effective for business combination for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusion of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effect date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

### *Annual Improvements to HKFRS 2011–2013 Cycle*

The Group has applied the *Annual Improvements to HKFRSs 2011–2013 Cycle* for the first time in the current period. The *Annual Improvements to HKFRSs 2011–2013 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 4. NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2012–2014 Cycle[1] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1] |
| HKFRS 10, HKFRS 12 and HKAS 28 (Amendments) | Investment Entities: Applying the Consolidation Exception[1] |
| HKFRS 11 (Amendments) | Accounting for Acquisitions of Interests in Joint Operations[1] |
| HKFRS 14 | Regulatory Deferral Accounts[1] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| HKAS 1 (Amendments) | Disclosure Initiative[1] |
| HKAS 16 and HKAS 38 (Amendments) | Clarification of Acceptable Methods of Depreciation and Amortisation[1] |
| HKAS 16 and HKAS 41 (Amendments) | Agriculture: Bearer Plants[1] |
| HKAS 27 (Amendments) | Equity Method in Separate Financial Statements[1] |

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

## 4. NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (Continued)

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

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of 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.

## 4. NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (Continued)

### HKFRS 9 *Financial Instruments* (Continued)

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

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material 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.

### HKFRS 15 *Revenue from Contracts with Customers*

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Int when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

## 4. NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (Continued)

**HKFRS 15 *Revenue from Contracts with Customers*** (Continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below.

### (a) Basis of consolidation

***Subsidiaries***

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the 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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (a) Basis of consolidation (Continued)

***Subsidiaries*** (Continued)

*Business combinations* (Continued)

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests and measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed 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.

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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (a) Basis of consolidation (Continued)

***Subsidiaries*** (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.

### (b) Interests in subsidiaries

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.

### (c) 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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Foreign currency translation (Continued)

***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 other comprehensive income 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 costs". 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".

### (d) Goodwill

Goodwill arises on the acquisition of subsidiaries represents 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 identified net assets acquired.

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 of 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 the CGU containing the 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.

### (e) 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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Revenue recognition (Continued)

Revenue from sale 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 returns, rebates and discounts and after eliminating sales within the Group.

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.

### (f) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Impairment of tangible and intangible assets other than goodwill (Continued)

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

### (g) Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from 'loss before tax' as reported in the 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 current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Taxation (Continued)

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

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

Current and deferred tax 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.

### (h) Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

| | |
|---|---|
| Plant and machinery | 20% |
| Leasehold improvement | 20% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 20% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) 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 accumulated impairment loss. Amortisation is calculated using the straight-line method to allocate the cost of trademark over its estimated useful lives of 20 years.

### (j) Financial instruments

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

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 loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

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 six months ended 31 December 2014

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

***Financial assets** (Continued)*

*Loans and receivables*

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

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the 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 are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. 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 that are 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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

***Financial assets** (Continued)*

*Impairment of financial assets (Continued)*

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

The carrying amount of 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.

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

***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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

***Financial liabilities and equity instruments** (Continued)*

*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.

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. When 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, other borrowings, promissory notes, convertible bonds and obligations under finance leases) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Financial instruments (Continued)

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

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

### (k) 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 for inventories less all estimated costs of completion and costs necessary to make the sale. Provision is made for inventories when they became obsolete.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Trade and other receivables

Trade receivables are amounts due from customers for merchandise 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 allowance for impairment.

### (m) Cash and cash equivalents

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

### (n) 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.

### (o) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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.

### (p) 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 six months ended 31 December 2014

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) 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.

### (r) 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.

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

### (s) Retirement benefit obligations

The Group operates the Mandatory Provident Fund Scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Retirement benefit obligations (Continued)

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% to 10% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK$30,000. The Group's contributions to the MPF Scheme are expensed as incurred. 5% of relevant income vests immediately upon the completion of service in the relevant service period, while the remaining portion vests in accordance with the MPF Scheme's vesting scales. Where employees leave the MPF Scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

### (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.

### (u) 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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Related parties (Continued)

(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).

(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.

### (v) 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. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

## 6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

### (a) 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.

### (b) 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.

### (c) 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 5(f). 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.

### (d) 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 the reporting period.

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

### (e) 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.

### (f) Impairment loss of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 5(d). The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates *(note 20)*.

## 7. TURNOVER

| | **01.07.2014 to 31.12.2014** *HK$'000* | 01.07.2013 to 30.06.2014 *HK$'000* |
|---|---|---|
| Sale of beauty products | **1,648** | 16,537 |
| Provision of therapy services | **20,436** | 11,045 |
| | **22,084** | 27,582 |

## 8. OPERATING SEGMENTS

The Group's reportable segments have been determined based on the information reported to the Chairman of the Board, being the chief operating decision maker, that are used for performance assessment and to make strategic decisions. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's reportable segments represents a strategic business unit that offer products and services which are subject to risks and returns that are different from those of other reportable segments. The Group currently has two reportable segments:

(a) Sale of beauty products

(b) Provision of therapy services

The segment of sale of beauty equipment was discontinued in the current period.

## 8. OPERATING SEGMENTS (Continued)

An analysis of the Group's revenue, results, assets, liabilities and other selected financial information for the six months ended 31 December 2014 and for the year ended 30 June 2014 by reportable segment is as follows:

### For the six months ended 31 December 2014

| | Continuing operations | | | Discontinued operations | |
|---|---|---|---|---|---|
| | Sale of beauty products *HK$'000* | Provision of therapy services *HK$'000* | Sub-total *HK$'000* | Sale of beauty equipment *HK$'000* | Consolidated *HK$'000* |
| **Revenue** | | | | | |
| Segment revenue | 1,648 | 20,436 | 22,084 | – | 22,084 |
| **Results** | | | | | |
| Segment (loss)/profit | (547) | 6,534 | 5,987 | – | 5,987 |
| Interest income on bank deposits *(note 9)* | | | 64 | – | 64 |
| Unallocated corporate income | | | 1,626 | – | 1,626 |
| Unallocated corporate expenses | | | (7,599) | – | (7,599) |
| Gain on disposal of a subsidiary *(note 9)* | | | 1,359 | – | 1,359 |
| Gain on disposal of property, plant and equipment *(note 9)* | | | 9 | – | 9 |
| Imputed interest on convertible bonds *(note 11)* | | | (376) | – | (376) |
| Imputed interest on promissory notes *(note 11)* | | | (351) | – | (351) |
| Reversal of impairment loss recognised in respect of intangible asset *(note 9)* | | | 350 | – | 350 |
| Written down of property, plant and equipment *(note 10)* | | | (322) | – | (322) |
| Written off of inventories *(note 10)* | | | (1) | – | (1) |
| Impairment loss recognised in respect of other receivables *(note 10)* | | | (46,519) | – | (46,519) |
| Finance costs | | | (443) | – | (443) |
| Loss before taxation | | | (46,216) | – | (46,216) |
| Income tax expense *(note 14)* | | | (827) | – | (827) |
| Loss for the period | | | (47,043) | – | (47,043) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 8. OPERATING SEGMENTS (Continued)

### At 31 December 2014

| | Continuing operations | | | Discontinued operations | |
|---|---|---|---|---|---|
| | Sale of beauty products HK$'000 | Provision of therapy services HK$'000 | Sub-total HK$'000 | Sale of beauty equipment HK$'000 | Consolidated HK$'000 |
| **Assets and liabilities** | | | | | |
| **Assets** | | | | | |
| Segment assets for reportable segments | 751 | 17,602 | 18,353 | – | 18,353 |
| Unallocated corporate assets | | | | | 72,013 |
| Consolidated total assets | | | | | 90,366 |
| **Liabilities** | | | | | |
| Segment liabilities for reportable segments | (135) | (25,110) | (25,245) | – | (25,245) |
| Unallocated corporate liabilities | | | | | (16,065) |
| Consolidated total liabilities | | | | | (41,310) |

### For the six months ended 31 December 2014

| | Continuing operations | | | Discontinued operations | | |
|---|---|---|---|---|---|---|
| | Sale of beauty products HK$'000 | Provision of therapy services HK$'000 | Sub-total HK$'000 | Sale of beauty equipment HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
| **Other segment information** | | | | | | |
| **Amount included in the measure of segment (loss)/profit and segment assets** | | | | | | |
| Additions to property, plant and equipment | – | 326 | 326 | – | 141 | 467 |
| Depreciation *(note 10)* | – | 929 | 929 | – | 1,392 | 2,321 |

## 8. OPERATING SEGMENTS (Continued)

For the year ended 30 June 2014

| | Continuing operations | | | Discontinued operations | |
|---|---|---|---|---|---|
| | Sale of beauty products *HK$'000* | Provision of therapy services *HK$'000* | Sub-total *HK$'000* | Sale of beauty equipment *HK$'000* | Consolidated *HK$'000* |
| **Revenue** | | | | | |
| Segment revenue | 16,537 | 11,045 | 27,582 | — | 27,582 |
| **Results** | | | | | |
| Segment profit | 5,634 | 4,355 | 9,989 | — | 9,989 |
| Interest income on bank deposits *(note 9)* | | | 16 | — | 16 |
| Unallocated corporate income | | | 4,750 | — | 4,750 |
| Unallocated corporate expenses | | | (16,487) | — | (16,487) |
| Gain on disposal of property, plant and equipment *(note 9)* | | | 183 | — | 183 |
| Imputed interest on convertible bonds *(note 11)* | | | (411) | — | (411) |
| Imputed interest on promissory notes *(note 11)* | | | (326) | — | (326) |
| Loss on disposal of property, plant and equipment *(note 10)* | | | (1,816) | — | (1,816) |
| Written down of property, plant and equipment *(note 10)* | | | (8) | — | (8) |
| Written off of deposits *(note 10)* | | | (6) | — | (6) |
| Written off of inventories *(note 10)* | | | (6) | — | (6) |
| Written off of trade receivables *(note 10)* | | | (2) | — | (2) |
| Impairment loss recognised in respect of other receivables *(note 10)* | | | (80) | — | (80) |
| Finance costs | | | (5,927) | — | (5,927) |
| Loss before taxation | | | (10,131) | — | (10,131) |
| Income tax expense *(note 14)* | | | (487) | — | (487) |
| Loss for the year | | | (10,618) | — | (10,618) |

## 8. OPERATING SEGMENTS (Continued)

At 30 June 2014

| | Continuing operations | | | Discontinued operations | |
|---|---|---|---|---|---|
| | Sale of beauty products HK$'000 | Provision of therapy services HK$'000 | Sub-total HK$'000 | Sale of beauty equipment HK$'000 | Consolidated HK$'000 |
| **Assets and liabilities** | | | | | |
| **Assets** | | | | | |
| Segment assets for reportable segments | 2,225 | 16,819 | 19,044 | — | 19,044 |
| Unallocated corporate assets | | | | | 122,830 |
| Consolidated total assets | | | | | 141,874 |
| **Liabilities** | | | | | |
| Segment liabilities for reportable segments | (215) | (22,911) | (23,126) | — | (23,126) |
| Unallocated corporate liabilities | | | | | (117,806) |
| Consolidated total liabilities | | | | | (140,932) |

For the year ended 30 June 2014

| | Continuing operations | | | Discontinued operations | | |
|---|---|---|---|---|---|---|
| | Sale of beauty products HK$'000 | Provision of therapy services HK$'000 | Sub-total HK$'000 | Sale of beauty equipment HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
| **Other segment information** | | | | | | |
| **Amount included in the measure of segment (loss)/profit and segment assets** | | | | | | |
| Additions to property, plant and equipment | — | 3,557 | 3,557 | — | 8,079 | 11,636 |
| Depreciation *(note 10)* | — | 503 | 503 | — | 2,221 | 2,724 |

Segment revenue reported above represents revenue generated from external customer. There were no inter-segment sales in the current period (for the year ended 30 June 2014: Nil).

Segments results represent (loss incurred)/profit earned by each segment without allocation of central administration costs including directors' emoluments, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 8. OPERATING SEGMENTS (Continued)

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

— all assets are allocated to reportable segments other than intangible asset, goodwill, restricted bank deposits and cash and cash equivalents that are not attributable to individual segments. Assets used jointly by individual segments are allocated on the basis of the revenues earned by individual segments; and

— all liabilities are allocated to reportable segments other than amount due to a former director, current tax liabilities, deferred taxation and other financial liabilities including other borrowings, promissory notes and convertible bonds that are not attributable to individual segments.

### Geographical information

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

| | Continuing operations Revenue from external customers | | Discontinued operations Revenue from external customers | | Continuing operations Non-current assets | | Discontinued operations Non-current assets | |
|---|---|---|---|---|---|---|---|---|
| | **For the six months ended 31 December 2014 *HK$'000*** | For the year ended 30 June 2014 *HK$'000* | **For the six months ended 31 December 2014 *HK$'000*** | For the year ended 30 June 2014 *HK$'000* | **For the six months ended 31 December 2014 *HK$'000*** | For the year ended 30 June 2014 *HK$'000* | **For the six months ended 31 December 2014 *HK$'000*** | For the year ended 30 June 2014 *HK$'000* |
| Hong Kong | **22,084** | 27,582 | **–** | — | **30,911** | 40,254 | **–** | — |
| The People's Republic of China (the "**PRC**") | **–** | — | **–** | — | **4** | 5 | **–** | — |
| | **22,084** | 27,582 | **–** | — | **30,915** | 40,259 | **–** | — |

### Information about major customers

No single customer contributed 10% or more to the Group's revenue for the six months ended 31 December 2014 (for the year ended 30 June 2014: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 9. OTHER INCOME

| | 01.07.2014 to 31.12.2014 HK$'000 | 01.07.2013 to 30.06.2014 HK$'000 |
|---|---|---|
| Gain on disposal of a subsidiary *(note 39)* | **1,359** | — |
| Gain on disposal of property, plant and equipment | **9** | 183 |
| Interest income on bank deposits | **64** | 16 |
| Other interest income *(note 23)* | **1,578** | 4,733 |
| Reversal of impairment loss recognised in respect of intangible asset *(note 19)* | **350** | — |
| Sundry income | **48** | 17 |
| | **3,408** | 4,949 |

## 10. LOSS FROM OPERATIONS

Loss from operations from continuing operations has been arrived at after charging:

| | 01.07.2014 to 31.12.2014 HK$'000 | 01.07.2013 to 30.06.2014 HK$'000 |
|---|---|---|
| Auditors' remuneration | **500** | 620 |
| Depreciation of property, plant and equipment* *(note 18)* | **2,321** | 2,724 |
| Loss on disposal of property, plant and equipment | **—** | 1,816 |
| Impairment loss recognised in respect of other receivables | **46,519** | 80 |
| Operating lease rentals in respect of rental premises* | **3,104** | 4,708 |
| Staff costs including directors' emoluments* | | |
| — salaries and other allowances | **7,875** | 8,624 |
| — contributions to retirement benefit schemes | **251** | 324 |
| | **8,126** | 8,948 |
| Written down of property, plant and equipment | **322** | 8 |
| Written off of deposits *(note 23)* | **—** | 6 |
| Written off of inventories *(note 21)* | **1** | 6 |
| Written off of trade receivables *(note 22)* | **—** | 2 |

* These items are included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income. Depreciation of property, plant and equipment of approximately HK$822,000 (for the year ended 30 June 2014: approximately HK$503,000), operating lease rentals in respect of rental premises of approximately HK$2,864,000 (for the year ended 30 June 2014: HK$4,228,000), salaries and other allowances of approximately HK$5,610,000 (for the year ended 30 June 2014: approximately HK$4,445,000) and contributions to retirement benefit scheme of approximately HK$163,000 (for the year ended 30 June 2014: approximately HK$188,000) were included in "Cost of sales".

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 11. FINANCE COSTS

| | **01.07.2014 to 31.12.2014** ***HK$'000*** | 01.07.2013 to 30.06.2014 *HK$'000* |
|---|---|---|
| Imputed interest on convertible bonds *(note 31)* | **376** | 411 |
| Imputed interest on promissory notes *(note 30)* | **351** | 326 |
| Interest on finance leases | **44** | 28 |
| Interest on other borrowings wholly payable within 5 years | **399** | 5,899 |
| | **1,170** | 6,664 |

## 12. DIRECTORS' EMOLUMENTS

The aggregate amount of emoluments paid or payable to the directors of the Company during the six months ended 31 December 2014 was HK$352,000 (during the year ended 30 June 2014: HK$929,000). The emoluments of each Director for the six months ended 31 December 2014 and for the year ended 30 June 2014 is as below:

| **Name of Director** | **Fees** | | **Salaries and other allowances** | | **Contributions to retirement benefit schemes** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **01.07.2014 to 31.12.2014** ***HK$'000*** | 01.07.2013 to 30.06.2014 *HK$'000* | **01.07.2014 to 31.12.2014** ***HK$'000*** | 01.07.2013 to 30.06.2014 *HK$'000* | **01.07.2014 to 31.12.2014** ***HK$'000*** | 01.07.2013 to 30.06.2014 *HK$'000* | **01.07.2014 to 31.12.2014** ***HK$'000*** | 01.07.2013 to 30.06.2014 *HK$'000* |
| Mr. Chan Kin Wah, Billy(1) | **49** | — | **–** | — | **–** | — | **49** | — |
| Mr. Lee Chan Wah | **–** | — | **60** | 211 | **3** | 8 | **63** | 219 |
| Mr. Wang Shang Zhong | **60** | 120 | **–** | — | **–** | — | **60** | 120 |
| Mr. Wang Xiao Fei(3) | **–** | 110 | **–** | — | **–** | — | **–** | 110 |
| Mr. Yu(2) | **–** | — | **–** | — | **–** | — | **–** | — |
| Mr. Du Juan Hong(4) | **–** | 120 | **–** | — | **–** | — | **–** | 120 |
| Mr. Chu Kin Wang, Peleus | **60** | 120 | **–** | — | **–** | — | **60** | 120 |
| Mr. Tam B Ray, Billy | **60** | 120 | **–** | — | **–** | — | **60** | 120 |
| Mr. Tse Joseph | **60** | 120 | **–** | — | **–** | — | **60** | 120 |
| Total emoluments | **289** | 710 | **60** | 211 | **3** | 8 | **352** | 929 |

*Notes:*

(1) Mr. Chan Kin Wah, Billy was appointed on 5 August 2014.

(2) Mr. Yu was the chairman and a director of the Company during the period and resigned on 19 January 2015.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 12. DIRECTORS' EMOLUMENTS (Continued)

During the six months ended 31 December 2014 and the year ended 30 June 2014, no emoluments have been paid by the Group to any of the Directors as an inducement to join or upon joining the Group as compensation for loss of office. None of the directors of the Company agreed to waive or waived any emoluments in the six months ended 31 December 2014 (in the year ended 30 June 2014: Nil).

## 13. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals (excluding Directors' emoluments as stated in *(note 12)* for the six months ended 31 December 2014 and the year ended 30 June 2014 were as follows:

| | **01.07.2014 to 31.12.2014** | 01.07.2013 to 30.06.2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other allowances | **2,820** | 1,605 |
| Contributions to retirement benefit schemes | **45** | 68 |
| | **2,865** | 1,673 |

Their emoluments were within the following brands:

| | **Number of employees** | |
|---|---|---|
| | **01.07.2014 to 31.12.2014** | 01.07.2013 to 30.06.2014 |
| Nil–HK$1,000,000 | **4** | 5 |
| HK$1,000,001–HK$2,000,000 | **1** | — |
| | **5** | 5 |

## 14. INCOME TAX EXPENSE

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

| | **01.07.2014 to 31.12.2014** ***HK$'000*** | 01.07.2013 to 30.06.2014 *HK$'000* |
|---|---|---|
| Current tax expense: | | |
| Hong Kong | **(889)** | (555) |
| Deferred taxation *(note 35)* | **62** | 68 |
| | **(827)** | (487) |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the period/year.

A PRC subsidiary is subjected to the PRC Enterprise Income Tax at 25% for the period/year. No provision for the PRC Enterprise Income Tax has been made for the six months ended 31 December 2014 (for the year ended 30 June 2014: Nil).

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

| | **Continuing operations** | | | |
|---|---|---|---|---|
| | **31.12.2014** | | 30.06.2014 | |
| | ***HK$'000*** | ***%*** | *HK$'000* | *%* |
| Loss before taxation | **(46,216)** | | (10,131) | |
| Taxation at income tax rate of 16.5% (30.06.2014:16.5%) | **7,626** | **16.5** | 1,672 | 16.5 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **11** | **0.1** | 25 | 0.2 |
| Tax effect of income not taxable for tax purpose | **394** | **0.9** | 39 | 0.4 |
| Tax effect of expenses not deductible for tax purpose | **(8,159)** | **(17.7)** | (755) | (7.5) |
| Tax losses not yet recognised | **(761)** | **(1.6)** | (1,536) | (15.1) |
| Deferred tax credit | **62** | **0.1** | 68 | 0.7 |
| Income tax expense for the period/year | **(827)** | **(1.7)** | (487) | (4.8) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 15. DISCONTINUED OPERATIONS

During the six months ended 31 December 2014, the directors of the Company decided to abandon a business segment of sale of beauty equipment, which constituted a major line of business. The abandonment was consistent with the Group's long-term policy to focus its activities on sale of beauty products and provision of therapy services. All its operations stopped during the six months ended 31 December 2014 and year ended 30 June 2014. In the financial statements for the six months ended 31 December 2014, the results and cash flows of the business segment of sale of beauty equipment are treated as discontinued operations.

During the six months ended 31 December 2014 and year ended 30 June 2014, the discontinued operations did not generate revenue nor make any profit or loss or cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 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:

***From continuing and discontinued operations***

| ***Loss*** | **01.07.2014 to 31.12.2014** ***HK$'000*** | 01.07.2013 to 30.06.2014 *HK$'000* |
|---|---|---|
| Loss for the period/year attributable to owners of the Company | **(48,939)** | (11,768) |

| ***Number of ordinary shares*** | **01.07.2014 to 31.12.2014** ***'000*** | 01.07.2013 to 30.06.2014 *'000* |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **62,175** | 13,122 |

***From continuing operations***

| ***Loss*** | **01.07.2014 to 31.12.2014** ***HK$'000*** | 01.07.2013 to 30.06.2014 *HK$'000* |
|---|---|---|
| Loss for the period/year attributable to owners of the Company | **(48,939)** | (11,768) |

| ***Number of ordinary shares*** | **01.07.2014 to 31.12.2014** ***'000*** | 01.07.2013 to 30.06.2014 *'000* |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **62,175** | 13,122 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 16. LOSS PER SHARE (Continued)

***From discontinued operations***

| ***Loss*** | **01.07.2014 to 31.12.2014 *HK$'000*** | 01.07.2013 to 30.06.2014 *HK$'000* |
|---|---|---|
| Loss for the period/year attributable to owners of the Company | **–** | — |

| ***Number of ordinary shares*** | **01.07.2014 to 31.12.2014 *'000*** | 01.07.2013 to 30.06.2014 *'000* |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **62,175** | 13,122 |

Diluted loss per share for the six months ended 31 December 2014 was the same as the basic loss per share as there was no diluting event.

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.

## 17. DIVIDENDS

The directors of the Company do not recommend any payment of dividends for the six months ended 31 December 2014 (for the year ended 30 June 2014: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 18. 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 2013 | 961 | 6,464 | 1,804 | 160 | 9,389 |
| Additions during the year | — | 3,543 | 565 | — | 4,108 |
| Disposals | (6) | (3,401) | (15) | (160) | (3,582) |
| Written off | — | (2) | (7) | — | (9) |
| Acquisition through business combination *(note 38)* | 3,365 | 2,739 | 1,424 | — | 7,528 |
| At 30 June 2014 and 1 July 2014 | 4,320 | 9,343 | 3,771 | — | 17,434 |
| Additions during the period | 321 | 50 | 96 | — | 467 |
| Disposals | (38) | — | — | — | (38) |
| Written off | (3) | (458) | — | — | (461) |
| **At 31 December 2014** | **4,600** | **8,935** | **3,867** | **–** | **17,402** |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 July 2013 | 96 | 673 | 303 | 16 | 1,088 |
| Charged for the year *(note 10)* | 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 and 1 July 2014 | 597 | 1,149 | 842 | — | 2,588 |
| Charged for the period *(note 10)* | 822 | 1,041 | 458 | — | 2,321 |
| Written back on disposals | (17) | — | — | — | (17) |
| Written off | (2) | (137) | — | — | (139) |
| **At 31 December 2014** | **1,400** | **2,053** | **1,300** | **–** | **4,753** |
| **Carrying amounts** | | | | | |
| **At 31 December 2014** | **3,200** | **6,882** | **2,567** | **–** | **12,649** |
| At 30 June 2014 | 3,723 | 8,194 | 2,929 | — | 14,846 |

Included in the carrying amounts of plant and machinery and furniture, fixture and equipment of approximately HK$344,000 and approximately HK$19,000 (at 30 June 2014: HK$660,000 and HK$23,000) are held under finance leases respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 18. PROPERTY, PLANT AND EQUIPMENT (Continued)

| **The Company** | **Furniture, fixture and equipment** *HK$'000* |
|---|---|
| **Cost** | |
| At 1 July 2013, 30 June 2014, 1 July 2014 and 31 December 2014 | 10 |
| **Accumulated depreciation and impairment** | |
| At 1 July 2013 | 1 |
| Charged for the year | 1 |
| At 30 June 2014 and 1 July 2014 | 2 |
| Charged for the period | 1 |
| **At 31 December 2014** | **3** |
| **Carrying amounts** | |
| **At 31 December 2014** | **7** |
| At 30 June 2014 | 8 |

## 19. INTANGIBLE ASSET

| The Group | Trademark *HK$'000* |
|---|---|
| **Cost** | |
| At 1 July 2013, 30 June 2014 and 1 July 2014 | 18,720 |
| Disposal during the period | (18,720) |
| **At 31 December 2014** | **–** |
| **Accumulated amortisation and impairment** | |
| At 1 July 2013, 30 June 2014 and 1 July 2014 | 18,720 |
| Reversal of impairment loss *(note 9)* | (350) |
| Written back on disposal | (18,370) |
| **At 31 December 2014** | **–** |
| **Carrying amounts** | |
| **At 31 December 2014** | **–** |
| At 30 June 2014 | — |

Intangible asset represents the trademark "Blu Spa" (the "**Trademark**") 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 4.5 years at the end of the reporting period.

### Impairment test of trademark

During the year ended 30 June 2012, the directors of the Company were of the opinion that there had been no material future cash inflow contributed to the Group by the Trademark and an impairment loss amounting to approximately HK$7,488,000 was recognised.

The Group completed its annual impairment test for the Trademark by comparing its recoverable amount to the carrying amount at 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.

On 24 September 2014, the Group disposed of the Trademark with a carrying amount of HK$350,000 to an independent third party at a consideration of HK$350,000. A reversal of impairment loss amounting to HK$350,000 was recognised in the statement of profit or loss and other comprehensive income for the six months ended 31 December 2014 (for the year ended 30 June 2014: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 20. GOODWILL

| | **The Group** |
|---|---|
| | *HK$'000* |
| **Cost** | |
| At 1 July 2013 | — |
| Additional amounts recognised from business combination occurring during the year *(note 38)* | 18,266 |
| **At 30 June 2014, 1 July 2014 and 31 December 2014** | **18,266** |
| **Accumulated impairment loss** | |
| **At 1 July 2013, 30 June 2014, 1 July 2014 and 31 December 2014** | **—** |
| **Carrying amounts** | |
| **At 31 December 2014** | **18,266** |
| At 30 June 2014 | 18,266 |

### Impairment test of goodwill

Goodwill acquired through business combination has been allocated to the sale of beauty products and provision of therapy services CGUs (the "**Group of CGUs**"), which are 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 of the Company covering a five-year period, and a pre tax discount rate of 17.51% per annum (at 30 June 2014: 18.04% 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 sued to extrapolate the cash flows 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 of long term gross domestic product growth, inflation rate and other relevant economic factors.

## 20. GOODWILL (Continued)

### Impairment test of goodwill (Continued)

No impairment loss has been recognised in respect of goodwill related to the Group of CGUs for the six months ended 31 December 2014 and year ended 30 June 2014 as its recoverable amount exceeds the carrying amount.

The directors of the Company 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.

## 21. INVENTORIES

| | The Group | |
|---|---|---|
| | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* |
| Finished goods | **1,924** | 2,620 |
| *Less:* written off *(note 10)* | **(1)** | (6) |
| | **1,923** | 2,614 |

For the six months ended 31 December 2014, the cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK$3,011,000 (for the year ended 30 June 2014: HK$5,562,000).

During the six months ended 31 December 2014, certain inventories were obsolete that could not generate future economic benefits and a written off of inventories amounted to approximately HK$1,000 (for the year ended 30 June 2014: HK$6,000) was recognised.

## 22. TRADE RECEIVABLES

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 day 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 are as follows:

| | The Group | |
|---|---|---|
| | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* |
| 0–30 days | **3,979** | 4,229 |
| 31–60 days | **1,057** | 861 |
| 61–90 days | **428** | 68 |
| 91–120 days | **82** | 75 |
| Over 120 days | **—** | 7 |
| | **5,546** | 5,240 |
| *Less:* written off as uncollectible *(note 10)* | **—** | (2) |
| | **5,546** | 5,238 |

At 31 December 2014, the Company had no trade receivables past due but not impaired. Trade receivables disclosed above include amounts which are past due at 30 June 2014 for which the Group had written off of approximately HK$2,000 as uncollectible during the year ended 30 June 2014 and the remaining had not been recognised as allowance for doubtful debts because there had not been a significant change in credit quality and the amounts were still considered recoverable at 30 June 2014. The Group did not hold any collateral over the balances.

## 23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Deposits *(Note a)* | **2,238** | 2,288 | **–** | — |
| *Less*: written off as uncollectible *(note 10)* | **–** | (6) | **–** | — |
| | **2,238** | 2,282 | **–** | — |
| Prepayments | **871** | 409 | **193** | 163 |
| Other receivables *(Notes b and c)* | **290,558** | 47,923 | **289,435** | 46,329 |
| *Less*: impairment loss recognised | **(287,939)** | — | **(287,939)** | — |
| | **2,619** | 47,923 | **1,496** | 46,329 |
| Amounts due from the Unconsolidated Subsidiaries *(Note c)* | **–** | 241,426 | **–** | 238,462 |
| *Less*: impairment loss recognised | **–** | (241,426) | **–** | (238,462) |
| | **–** | — | **–** | — |
| | **5,728** | 50,614 | **1,689** | 46,492 |

*Notes:*

(a) Deposits were mainly comprised of rental deposits of approximately HK$1,863,000 for the six months ended 31 December 2014 and for the year ended 30 June 2014.

During the year ended 30 June 2014, the directors of the Company were of the opinion that the rental deposit of approximately HK$6,000 had been considered to be non-recoverable and thus written off.

(b) On 30 April 2010, BSHK entered into a sale and purchase agreement with Mr. Shum Yeung ("**Mr. Shum**"), pursuant to which BSHK had agreed to acquire (a) 70% of the entire issued share capital of an entity and (b) a shareholder's loan to such entity at a total consideration of HK$80,000,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

*Notes: (Continued)*

(b) (Continued)

The acquisition did not proceed and the Group has entered into various deed of termination and deeds of settlement with Mr. Shum and a deed of guarantee with Dutfield International Group Company Limited ("**Dutfield**") in relation to the repayment of the refundable deposit. As Mr. Shum defaulted in the full repayment of the refundable deposit and the accrued contractual interest despite repeated demands and requests, the Company had obtained a judgment against Mr. Shum pursuant to which it was adjudged, inter alia, that Mr. Shum shall pay to the Company the sum of HK$39,127,500 (being the amount of the outstanding and unpaid refundable deposit) together with contractual interest 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 the High Court Ordinance until payment. As at 31 December 2014, the aggregate amount of the outstanding and unpaid refundable deposit and the accrued interest was approximately HK$46,500,000. Since (i) Mr. Shum failed to settle the judgment debt and the accrued interest and commenced various legal actions to prevent the Company from recovering the judgment debt and the accrued interest including a fresh legal action as announced by the Company in its announcement dated 23 January 2015; (ii) it was unclear whether and when the Company would be able to receive the judgment debt and the accrued interest in full from selling (1) the charged shares in Mr. Shum's companies; and (2) the charged properties as those properties were held by Mr. Shum and another individual as joint tenants and subject to mortgages given that the Company did not have the information of the financial status of Mr. Shum and his companies, the amount of Mr. Shum's interest in the charged properties and the outstanding loan amounts under the mortgages; and (iii) the ability of Dutfield to fulfil its obligations under the guarantee depended on the outcome of the legal proceedings for, inter alia, its claim for the sum of HK$141,360,000 under a loan agreement but Dutfield failed to obtain a summary judgment against the debtor and the outcome of the legal proceedings was uncertain, the Company decided to recognise an impairment on the judgment debt and the accrued interest in the aggregate amount of approximately HK$46,500,000. For further details, please refer to 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, 3 May 2013, 12 January 2015 and 23 January 2015 and the sub-section headed "Litigation" in the section headed "Management Discussion and Analysis" of the annual report dated 18 September 2014 for the year ended 30 June 2014 of the Company.

## 23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

*Notes: (Continued)*

(c) At 30 June 2014, 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 and accumulated impairment loss of approximately HK$241,426,000 of which approximately HK$80,000 was recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 30 June 2014. 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 balances 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. On 19 December 2014, the Company entered into a sale and purchase agreement to dispose of the entire issued share capital of BSG to KIL at a cash consideration of HK$1.00. BSG was the intermediate holding company of the Unconsolidated Subsidiaries. The disposal was completed on 19 December 2014. Given these circumstances, the Group presented the amounts due from Unconsolidated Subsidiaries and the respective accumulated impairment losses as other receivables and the accumulated impairment losses on other receivables for the six months ended 31 December 2014.

At 30 June 2014, 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 and accumulated impairment losses of approximately HK$238,462,000 of which approximately HK$80,000 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 Company's 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. On 19 December 2014, the Company entered into a sale and purchase agreement to dispose of the entire issued share capital of BSG to KIL at a cash consideration of HK$1.00. BSG was the intermediate holding company of the Unconsolidated Subsidiaries. The disposal was completed on 19 December 2014. Given these circumstances, the Company presented the amounts due from Unconsolidated Subsidiaries and the respective accumulated impairment losses as other receivables and the accumulated impairment losses on other receivables for the six months ended 31 December 2014.

## 24. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash at bank and on hand | **26,553** | 30,633 | **12,694** | 23,355 |
| Restricted bank deposits: | | | | |
| Interest-bearing | **12,554** | 12,516 | **—** | — |
| Non-interest bearing | **7,147** | 7,147 | **—** | — |
| | **46,254** | 50,296 | **12,694** | 23,355 |

Analysed for reporting purposes:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Current Assets | **46,254** | 43,149 | **12,694** | 23,355 |
| Non-current assets | **—** | 7,147 | **—** | — |
| | **46,254** | 50,296 | **12,694** | 23,355 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to approximately HK$64,000 (at 30 June 2014: approximately HK$161,000).

The RMB is not freely convertible into other currencies, however, under the PRC'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 earn interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

At 31 December 2014, included in restricted bank deposits were deposits held at bank in respect of credit card and instalment sales arrangement from its sale of beauty products and provision of therapy service business, of which approximately (i) HK$7,147,000 was interest-free and maturing on 4 July 2015, and approximately (ii) an aggregate amount of approximately HK$12,554,000 with interest rates ranging from 0.9% to 1.03% per annum are maturing from January to March 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 25. SHARE CAPITAL

### The Group and the Company

Movements in the share capital of the Company during the period/year are as follows:

| | Number of shares *'000* | Amount *HK$'000* |
|---|---|---|
| Ordinary shares of HK$0.10 each (at 30 June 2014: HK$0.10 each) | | |
| ***Authorised:*** | | |
| At 1 July 2013, 30 June 2014, 1 July 2014 and 31 December 2014 | **5,000,000** | **500,000** |
| ***Issued and fully paid:*** | | |
| At 1 July 2013 | 1,312,200 | 131,220 |
| Capital reorganisation *(Note a)* | (1,299,078) | (129,908) |
| At 30 June 2014 and 1 July 2014 | 13,122 | 1,312 |
| Conversion of convertible bonds *(Note b)* | 40,000 | 4,000 |
| Open offer of new shares *(Note c)* | 19,061 | 1,906 |
| Placing of new shares *(Note d)* | 2,620 | 262 |
| **At 31 December 2014** | **74,803** | **7,480** |

*Notes:*

(a) On 28 February 2013, the shareholders of the Company 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**");

(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 22 May 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 25. SHARE CAPITAL (Continued)

### The Group and the Company (Continued)

*Notes: (Continued)*

(b) During the six months ended 31 December 2014, New Cove Limited ("**New Cove**"), a wholly-owned subsidiary of Eternity, converted the principal amount of HK$40,000,000 of the convertible bonds of the Company into an aggregate of 40,000,000 ordinary shares of the Company at the initial conversion price of HK$1.00 per ordinary share.

(c) On 11 August 2014, 19,061,000 new ordinary shares of HK$0.10 each were allotted and issued at a subscription price of HK$3.00 per ordinary share by way of open offer to the qualifying shareholders of the Company on the basis of one new ordinary share for every two existing ordinary held on 16 July 2014. The net proceeds of approximately HK$54,000,000 were used for the repayment of the outstanding loan indebted to Hong Kong Builders Finance Limited ("**HK Builder**"), a wholly-owned subsidiary of Eternity.

(d) On 28 August 2014, 2,620,000 new ordinary shares of HK$0.10 each were allotted and issued at a price of HK$3.15 per ordinary share by way of placing of new shares under general mandate, raising approximately HK$7,860,000 (net of proceed), of which approximately HK$7,540,000.00 was used for the repayment of all outstanding loan indebted to HK Builder and approximately HK$320,000 was used for general working capital of the Group.

## 26. AMOUNT DUE TO A FORMER DIRECTOR

### The Group and the Company

At 31 December 2014 and 30 June 2014, the amount due to Ms. Chan Choi Har, Ivy amounted to approximately 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.

## 27. TRADE PAYABLES

| | The Group | |
|---|---|---|
| | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **210** | 399 |

## 27. TRADE PAYABLES (Continued)

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

| | The Group | |
|---|---|---|
| | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* |
| 0–30 days | **177** | 366 |
| 31–60 days | **—** | — |
| 61–90 days | **—** | 33 |
| 91–120 days | **—** | — |
| Over 120 days | **33** | — |
| | **210** | 399 |

## 28. ACCRUALS AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Accruals | **3,076** | 6,123 | **2,035** | 5,227 |
| Other payables *(Note a)* | **2,004** | 2,753 | **1,888** | 1,039 |
| Amounts due to the Unconsolidated Subsidiaries *(Note b)* | **—** | 1,309 | **—** | — |
| | **5,080** | 10,185 | **3,923** | 6,266 |

*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 and its ancillary right at a consideration of HK$350,000. A refundable deposit of HK$350,000 paid by an independent third party was included in other payables at 30 June 2014. On 24 September 2014, the transaction was completed. Details of which is included in note 19 to the consolidated financial statements.

(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 six months ended 31 December 2014

## 29. OTHER BORROWINGS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest bearing other borrowings *(Notes a and c)* | **2,450** | 61,433 | **–** | 61,433 |
| Non-interest bearing other borrowings *(Note b)* | **1,400** | 1,400 | **–** | — |
| | **3,850** | 62,833 | **–** | 61,433 |

**Carrying amount repayable:**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Within one year | **3,850** | 1,833 | **–** | 433 |
| More than two years, but not exceeding five years | **–** | 61,000 | **–** | 61,000 |
| | **3,850** | 62,833 | **–** | 61,433 |

*Notes:*

(a) During the six months ended 31 December 2014, included in other borrowings of HK$2,450,000 was a loan advanced by KIL, which is interest bearing at 5% per annum, unsecured and maturing on 25 August 2015. The loan is classified as current liabilities in the consolidated statement of financial position.

(b) During the six months ended 31 December 2014 and year ended 30 June 2014, included in other borrowings of HK$1,400,000 was a loan advanced by Dr. Lo Shing Kei, an independent third party, which is non-interest bearing, unsecured and repayable on demand. The loan is classified as current liabilities in the consolidated statement of financial position.

(c) During the year ended 30 June 2014, included in other borrowings of HK$21,000,000 and HK$40,000,000 were loans advanced by HK Builders, which were interest bearing at 5% per annum, unsecured and maturing on 8 April 2017 and 25 May 2017 respectively. The loans were fully settled during the six months ended 31 December 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 30. PROMISSORY NOTES

| | **The Group and the Company** HK$'000 |
|---|---|
| At 1 July 2013 | — |
| Issue of the promissory notes, at fair value *(Note)* | 12,392 |
| Imputed interest on promissory notes *(note 11)* | 326 |
| At 30 June 2014 and 1 July 2014 | 12,718 |
| Imputed interest on promissory notes *(note 11)* | 351 |
| Repayment of promissory notes | (7,000) |
| **At 31 December 2014** | **6,069** |

*Note:*

On 11 April 2014, the Company issued four promissory notes in the aggregate principal amount of HK$13,420,000 to two independent third parties (the "**Vendors**") as part of the consideration for the acquisition (the "**Acquisition**") of 51% equity interest in China Honest by the Group. The four promissory notes are interest-free and unsecured. Two of the promissory notes in the aggregate principal amount of HK$2,608,000 and HK$4,392,000 (collectively, the "**PNs I**") were matured on 30 June 2014. The remaining two promissory notes in the aggregate principal amount of HK$4,028,000 and HK$2,392,000 (collectively, the "**PNs II**") are maturing on 30 June 2015.

Pursuant to the terms of the Acquisition, the Vendors have irrevocably and unconditionally warranted and guaranteed to the Company the profits before taxation and extraordinary items of China Honest for the years ending 31 March 2014 and 2015 will not be less than HK$4,000,000 (the "**2014 Guaranteed Profit**") and HK$9,000,000 (the "**2015 Guaranteed Profit**"). In the event the 2014 Guaranteed Profit or 2015 Guaranteed Profit is not fulfilled, the Vendors shall compensate the Group an amount equivalent to the shortfall by way of setting off the shortfall against the face value of the PNs I (for the shortfall in respect of the year ending 31 March 2014) or the PNs II (for the shortfall in respect of the year ending 31 March 2015) on a dollar to dollar basis.

As the 2014 Guaranteed Profit was fulfilled, the PNs I was fully repaid on 27 July 2014.

At 31 December 2014, the PNs II was subjected to the compensation obligation of the 2015 Guaranteed Profit and was classified as contingent consideration. During the period from 12 April 2014 to 31 December 2014, China Honest earned a profit before taxation and extraordinary items of approximately HK$7,662,000. The directors of the Company are of the opinion that the 2015 Guaranteed Profit is most probably to be fulfilled and no provision for contingent consideration is made.

Based on the valuation carried out by Roma Appraisals Limited, a firm of independent qualified professional valuers, the fair values of the PNs I and the PNs II at the date of their issue were HK$6,824,000 and HK$5,568,000 respectively. The effective interest rates of the PNs I and the PNs II are 11.74% per annum and 12.28% per annum respectively.

## 31. CONVERTIBLE BONDS

On 22 May 2014, the Company issued convertible bonds in the principal amount of HK$40,000,000 to New Cove. 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.

On 2 July 2014 and 30 September 2014, New Cove converted the principal amount of HK$25,000,000 and HK$15,000,000 of the convertible bonds into 25,000,000 ordinary shares and 15,000,000 ordinary shares of the Company at the initial conversion price of HK$1.00 per share.

| | **The Group and the Company** *HK$'000* |
|---|---|
| At 1 July 2013 | — |
| 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 |
| Imputed interest on convertible bonds *(note 11)* | 411 |
| Liability component at 30 June 2014 and 1 July 2014 | 29,712 |
| Imputed interest on convertible bonds *(note 11)* | 376 |
| Conversion into ordinary shares | (30,088) |
| **Liability component at 31 December 2014** | **—** |

## 32. DEPOSITS FROM CUSTOMERS

| | **The Group** | |
|---|---|---|
| | **31.12.2014** ***HK$'000*** | 30.06.2014 *HK$'000* |
| Deposits from customers | **80** | 94 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 33. DEFERRED REVENUE

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

| | The Group | |
|---|---|---|
| | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **17,393** | 5,274 |
| More than one year but within two years | **6,607** | 16,595 |
| | **24,000** | 21,869 |

The movement of deferred revenue is as follows:

| | *HK$'000* |
|---|---|
| At 1 July 2013 | — |
| Acquisition through business combination *(note 38)* | 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) |
| At 30 June 2014 and 1 July 2014 | 21,869 |
| Sales contracts entered into during the period *(Note a)* | 22,577 |
| Revenue recognised upon the provision of services *(Note b)* | (18,510) |
| Revenue recognised upon expiry of prepaid treatment packages *(Note c)* | (1,704) |
| Revenue recognised for sales and redemptions of beauty products | (48) |
| Refunds of treatment packages *(Note d)* | (184) |
| **At 31 December 2014** | **24,000** |

*Notes:*

(a) The amounts represent receipts from provision of therapy services to clients during the period/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 the statement of profit or loss and other comprehensive income as a result of therapy services rendered to clients during the period/year.

(c) The amounts represent revenue recognised in statement of profit or loss and other comprehensive income for prepaid service packages expired in accordance with the contractual service periods stipulated in the respective sale contracts, which last for 3 months to 2 years from the invoice date of the sale contracts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 33. DEFERRED REVENUE (Continued)

*Notes: (Continued)*

(d) The amounts represent refunds of treatment packages as a result of 5 clients' claims for the six months ended 31 December 2014 in relation to treatment outcome assessed with reference to individual physical conditions and treatment progress on a case-by-case basis.

At 31 December 2014, the entire balance of deferred revenue was aged within 2 years from the date when the respective sales contracts were entered into.

## 34. OBLIGATIONS UNDER FINANCE LEASES

### The Group

At 31 December 2014 and 30 June 2014, the Group leased certain of its machineries and a digital photocopier under finance leases. The average lease term is 5 years for the period/year. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 0% to 3% per annum for the period/year. A motor vehicle had been disposed of during the year ended 30 June 2014.

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts payable under finance leases: | | | | |
| Within one year | **509** | 675 | **444** | 588 |
| More than one year and not more than five years | **11** | 181 | **11** | 160 |
| | **520** | 856 | **455** | 748 |
| *Less:* future finance charges | **(65)** | (108) | **—** | — |
| | **455** | 748 | **455** | 748 |
| *Less:* amounts due for settlement within 12 months (shown under current liabilities) | | | **(444)** | (588) |
| Amounts due for settlement after 12 months | | | **11** | 160 |

## 34. OBLIGATIONS UNDER FINANCE LEASES (Continued)

### The Group (Continued)

Included in the obligations under finance leases of approximately (i) HK$435,000, is secured by a guarantee from the Government of the HKSAR, a joint and several guarantee from a director of China Honest and an independent third party and the Group's title to the leased assets, and approximately (ii) HK$20,000 is non-interest bearing and secured by the Group's title to the leased assets.

## 35. DEFERRED TAXATION

The followings are the deferred tax liabilities recognised and movements thereon:

### The Group and the Company

| | **Convertible bonds** *HK$'000* |
|---|---|
| At 1 July 2013 | — |
| Recognised directly in equity | 1,765 |
| Credited to profit or loss *(note 14)* | (68) |
| At 30 June 2014 and 1 July 2014 | 1,697 |
| Conversion of convertible bonds | (1,635) |
| Credited to profit or loss *(note 14)* | (62) |
| **At 31 December 2014** | **—** |

At 31 December 2014, the Group has unused estimated tax losses of approximately HK$71,918,000 (at 30 June 2014: approximately HK$67,761,000) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 36. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **—** | 483 |
| *Less:* impairment losses recognised | **—** | (480) |
| | **—** | 3 |
| Amounts due from subsidiaries | **58,855** | 59,010 |
| *Less:* impairment losses recognised | **(15,638)** | (16,542) |
| | **43,217** | 42,471 |

The carrying amounts of interest in subsidiaries are reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from respective subsidiaries.

The amounts due from subsidiaries are unsecured, non-interest bearing and represent equity funding by the Company to a subsidiary as the Company does not expect repayment in the foreseeable future.

Details of the Company's subsidiaries at 31 December 2014 are set out as follows:

| Name of subsidiary | Place of incorporation/ operation | Issued and paid up share capital | Proportion of nominal value of issued capital held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|---|
| Century Capital Holdings Limited ("**Century Capital**") | British Virgin Islands | US$1 | 100 | — | Investment holding |
| Century Finance (BVI) Limited | British Virgin Islands | US$1 | — | 100 | Investment holding |
| Century Finance Limited | Hong Kong | HK$1 | — | 100 | Dormant |
| China Honest | Hong Kong | HK$100 | — | 51 | Marketing development, product distribution and customer support services |
| EDS (Asia) Limited | Hong Kong | HK$1 | — | 100 | Marketing development, product distribution and customer support services |
| EDS (China) Limited | Hong Kong | HK$1 | — | 100 | Investment holding |
| EDS Distribution Limited | Hong Kong | HK$1 | — | 100 | Marketing development, product distribution and customer support services |
| EDS International Holdings Limited | British Virgin Islands | US$1 | 100 | — | Investment holding |
| 西安伊菲丹化妝品銷售有限公司@ | The PRC | HK$500,000 | — | 100 | Dormant |

@ Wholly-owned foreign enterprise

## 36. INTERESTS IN SUBSIDIARIES (Continued)

### Details of non-wholly owned subsidiary that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiary 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 | |
|---|---|---|---|---|---|---|---|
| | | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 |
| | | | | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| China Honest | Hong Kong | **49%** | 49% | **1,896** | 1,150 | **3,757** | 1,861 |

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

***China Honest***

| | **31.12.2014** | 30.06.2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current assets | **40,784** | 26,072 |
| Non-current assets | **6,060** | 14,148 |
| Current liabilities | **(39,177)** | (36,277) |
| Non-current liabilities | **—** | (145) |
| Equity attributable to owners of the Company | **3,910** | 1,937 |
| Non-controlling interests | **3,757** | 1,861 |

## 36. INTERESTS IN SUBSIDIARIES (Continued)

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

***China Honest*** *(Continued)*

| | **For the period from 01.07.2014 to 31.12.2014** ***HK$'000*** | For the period from 12.04.2014 to 30.06.2014 *HK$'000* |
|---|---|---|
| Revenue | **20,458** | 9,256 |
| Profit for the period | **3,870** | 2,347 |
| Profit attributable to owners of the Company | **1,974** | 1,197 |
| Profit attributable to the non-controlling interests | **1,896** | 1,150 |
| Profit for the period | **3,870** | 2,347 |
| Other comprehensive income attributable to owners of the Company | **–** | — |
| Other comprehensive income attributable to the non-controlling interests | **–** | — |
| Other comprehensive income during the period | **–** | — |
| Total comprehensive income attributable to owners of the Company | **1,974** | 1,197 |
| Total comprehensive income attributable to the non-controlling interests | **1,896** | 1,150 |
| Total comprehensive income during the period | **3,870** | 2,347 |
| Dividend | **–** | — |
| Net cash inflow from operating activities | **7,155** | 13,041 |
| Net cash outflow from investing activities | **(347)** | (42) |
| Net cash outflow from financing activities | **(290)** | (127) |
| Net cash inflow | **6,518** | 12,872 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 37. 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 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 and 1 July 2014 | — | 27,141 | (36,951) | 8,934 | (876) |
| Loss for the period | — | — | (48,041) | — | (48,041) |
| Conversion of convertible bonds | 36,658 | — | — | (8,934) | 27,724 |
| Open off of new shares | 55,277 | — | — | — | 55,277 |
| Placing of new shares | 7,991 | — | — | — | 7,991 |
| Share issue expense | (2,004) | — | — | — | (2,004) |
| **At 31 December 2014** | **97,922** | **27,141** | **(84,992)** | **–** | **40,071** |

## 38. BUSINESS COMBINATION

### For the six months ended 31 December 2014

On 18 December 2014, the Company entered into a sale and purchase agreement with 21 Holdings Limited ("**21 Holdings**"), for acquiring the entire shares in and the sale loan due by Century Capital at a cash consideration of HK$1. Three directors of 21 Holdings are the directors of Eternity, the controlling shareholder of the Company. The acquisition was completed on 18 December 2014.

| | ***HK$'000*** |
|---|---|
| **Consideration:** | |
| — Cash paid | – |
| Total consideration | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 38. BUSINESS COMBINATION (Continued)

### For the six months ended 31 December 2014 (Continued)

| | HK$'000 |
|---|---|
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Amount due to shareholder | **(747,444)** |
| **Total identifiable net liabilities at fair value** | **(747,444)** |
| Sale loan | **747,444** |
| Goodwill | – |
| | – |

| | HK$'000 |
|---|---|
| **Net cash outflow on acquisition of a subsidiary** | |
| Consideration paid in cash | – |
| *Less:* cash and cash equivalent balances acquired | – |
| | – |

The goodwill represented the excess of the fair value of the consideration as at the acquisition date over the fair value of the net assets.

Century Finance did not generate any revenue nor make any profit or loss to the Group during the period from 18 December 2014, being the date of acquisition, to 31 December 2014.

Had the combination taken place at the beginning of the six months ended 31 December 2014, the revenue of the Group and the loss of the Group for the year would have no material effect. The pro forma information is for illustrative purpose only.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 38. BUSINESS COMBINATION (Continued)

### For the year ended 30 June 2014

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$ HK$2,000,000; (ii) cash in the amount of HK$6,000,000; and (iii) the issuance of the promissory notes with an aggregate principal amount of HK$13,420,000, which comprise of PNs I with a principal amount of HK$7,000,000 and PNs II with a principal amount of HK$6,420,000 (the "**Acquisition**").

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.

| | *HK$'000* |
|---|---|
| **Consideration:** | |
| — Cash paid | 8,000 |
| — PNs I *(note 30)* | 6,824 |
| — PNs II *(note 30)* | 5,568 |
| Total consideration | 20,392 |

| | *HK$'000* |
|---|---|
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Property, plant and equipment *(note 18)* | 7,528 |
| Restricted bank deposits | 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 *(note 33)* | (21,010) |
| Accruals and other payables | (892) |
| Obligation under finance leases | (852) |
| Other borrowings *(note 29)* | (1,400) |
| Tax payable | (58) |
| **Total identifiable net assets at fair value** | 1,450 |
| Non-controlling interests (49% of China Honest) | (711) |
| Sale loan | 1,387 |
| Goodwill *(note 20)* | 18,266 |
| | 20,392 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 38. BUSINESS COMBINATION (Continued)

### For the year ended 30 June 2014 (Continued)

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

The goodwill represented the excess of the fair value of the consideration as at the acquisition date over the fair value of the net assets.

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 terms of the Acquisition, the Vendors have irrevocably and unconditionally warranted and guaranteed to the Company the profits before taxation and extraordinary items of China Honest for the years ending 31 March 2014 and 2015 will not be less than the 2014 Guaranteed Profit and the 2015 Guaranteed Profit. In the event the 2014 Guaranteed Profit or 2015 Guaranteed Profit is not fulfilled, the Vendors shall compensate the Group an amount equivalent to the shortfall by way of setting off the shortfall against the face value of the PNs I (for the shortfall in respect of the year ending 31 March 2014) or the PNs II (for the shortfall in respect of the year ending 31 March 2015) on a dollar to dollar basis.

As the 2014 Guaranteed Profit was fulfilled, the PNs I was fully repaid on 27 July 2014.

At 31 December 2014, the PNs II was subjected to the compensation obligation of the 2015 Guaranteed Profit and was classified as contingent consideration. During the period from 12 April 2014 to 31 December 2014, China Honest earned a profit before taxation and extraordinary items of approximately HK$7,662,000. The directors of the Company are of the opinion that the 2015 Guaranteed Profit is most probably to be fulfilled and no provision for contingent consideration is made.

China Honest contributed approximately HK$9,256,000 to the Group's revenue and a profit of approximately HK$2,347,000 to the consolidated statement of profit or loss and other comprehensive income during the period from 11 April 2014, being the date of acquisition, to 30 June 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 38. BUSINESS COMBINATION (Continued)

### For the year ended 30 June 2014 (Continued)

Had the combination taken place at the beginning of the year ended 30 June 2014, 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. The pro forma information is for illustrative purpose only.

## 39. DISPOSAL OF A SUBSIDIARY

### For the six months ended 31 December 2014

On 19 December 2014, the Company entered into a sale and purchase agreement to dispose of the entire issued share capital of BSG to KIL at a cash consideration of HK$1. The disposal was completed on 19 December 2014. Details of the assets and liabilities of BSG and its subsidiaries are set out as follows:

| | ***HK$'000*** |
|---|---|
| Amounts due to Unconsolidated Subsidiaries | **(1,359)** |
| **Net liabilities disposed of** | **(1,359)** |
| **Gain on disposal of a subsidiary** | |
| Cash consideration received | – |
| Net liabilities disposed of | **1,359** |
| | **1,359** |
| **Net cash inflow arising from disposal** | |
| Consideration paid in cash | – |
| *Less:* cash and cash equivalents disposed of | – |
| | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 40. COMMITMENTS

### Lease commitments

***The Group as lessee***

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

| | The Group | |
|---|---|---|
| | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **4,096** | 6,104 |
| In the second to fifth year inclusive | **415** | 1,503 |
| | **4,511** | 7,607 |

Operating lease payments represent rentals paid or payable by the Group for its office and retail shops premises. Leases are mainly negotiated for an average terms of one to three years.

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

## 41. RETIREMENT BENEFIT SCHEMES

With effect from 1 December 2000, the Group has set up a defined contribution retirement scheme, the MPF Scheme, for all the eligible employees of the Group. The Group did not provide retirement benefits for its employees prior to set up of the MPF Scheme.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,500 per employee and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HK$30,000 (the "**Mandatory Contribution**"). The employees are entitled to 100% of the Mandatory Contribution upon their retirement at the age of 65 years old, death or total incapacity.

## 42. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in amounts due from the Unconsolidated Subsidiaries *(note 23)*, amount due to a former director *(note 26)*, amounts due to the Unconsolidated Subsidiaries *(note 28)* and elsewhere to the consolidated financial statements, the Group entered into the following material transactions with related parties during the period/year:

| Name of parties | Nature of transactions | 31.12.2014 HK$'000 | 30.06.2014 HK$'000 |
|---|---|---|---|
| BSHK *(Note a)* | Legal and professional fee paid on behalf | – | 80 |
| Hong Kong Builders *(Note b)* | Interest on other borrowings | **384** | 433 |
| KIL *(Note c)* | Interest on other borrowings | **15** | 5,466 |
| | Disposal of a subsidiary | – | — |
| Koffman Corporate Service Limited ("**KCSL**") *(Note c)* | Rental expenses | **240** | 480 |

*Notes:*

(a) BSHK was de-consolidated on 1 July 2011. Details of which were set out in note 2 to the consolidated financial statements. Upon disposal of BSG during the six months ended 31 December 2014, BSHK has been reclassified from amounts due from Unconsolidated Subsidiaries to other receivables.

(b) Hong Kong Builders is a subsidiary of Eternity, the controlling shareholder of the Company.

(c) The issued share of KIL and KCSL are 50% owned by Mr Yu, the chairman and a director of the Company, who resigned on 19 January 2015.

### Compensation for key management personnel

Emoluments for key management personnel including amounts paid to the directors of the Company and certain of the highest paid employees, as disclosed in notes 12 and 13 to the consolidated financial statements, were as follows:

| | The Group | |
|---|---|---|
| | 31.12.2014 HK$'000 | 30.06.2014 HK$'000 |
| Director fees | **289** | 710 |
| Salaries and other allowances | **60** | 211 |
| Contributions to retirement benefit schemes | **3** | 8 |
| | **352** | 929 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 43. CAPITAL MANAGEMENT

### 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 and maintain healthy ratios in order to support its business and enhance shareholder's value.

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's capital management objective, policies or processes were unchanged during the six months ended 31 December 2014 and the year ended 30 June 2014.

The Group monitors capital using gearing ratio, which is the Group's total borrowings over equity attributable to owners of the Company. The gearing ratios at 31 December 2014 and 30 June 2014 were as follows::

| | **31.12.2014**<br>***HK$'000*** | 30.06.2014<br>*HK$'000* |
|---|---|---|
| Total borrowings *(Note a)* | **10,374** | 106,011 |
| *Less*: cash and cash equivalents *(Note b)* | **(26,553)** | (30,633) |
| | **(16,179)** | 75,378 |
| Equity attributable to owners of the Company | **45,299** | (919) |
| Gearing ratio | **22.9%** | N/A |

*Notes:*

(a) Borrowings include other borrowings, promissory notes, convertible bonds and obligations under finance leases.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 44. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | The Group | | The Company | |
|---|---|---|---|---|
| | **31.12.2014** | 30.06.2014 | **31.12.2014** | 30.06.2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$000* |
| **Financial assets** | | | | |
| Loans and receivables (including cash and cash equivalents) | **56,657** | 105,739 | **57,407** | 112,152 |
| **Financial liabilities** | | | | |
| Amortised cost | **15,728** | 116,659 | **10,056** | 110,193 |

### Financial risk management objectives and policies

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. These risks include credit risk, liquidity risk and price risk.

***(a) Credit risk***

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

In order to minimise the credit risk, the executive directors of the Company are responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables and debt investment at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

***(b) Liquidity risk***

Ultimate responsibility for liquidity management risk rests with the board of directors of the Company, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate level of cash and cash equivalent by continuously monitoring forecast and matching the maturity profiles of financial assets and liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 44. FINANCIAL INSTRUMENTS (Continued)

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

#### *(b) Liquidity risk (Continued)*

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have 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 tables include both interest and principal cash flows.

| | Weighted average effective interest rate | Less than 1 year | 1 to 5 years | Over 5 years | Total un-discounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **The Group** | | | | | | |
| **At 31 December 2014** | | | | | | |
| Amount due to a former director | **—** | **64** | **—** | **—** | **64** | **64** |
| Trade payables | **—** | **210** | **—** | **—** | **210** | **210** |
| Accruals and other payables | **—** | **5,080** | **—** | **—** | **5,080** | **5,080** |
| Other borrowings | **3%** | **3,930** | **—** | **—** | **3,930** | **3,850** |
| Promissory notes | **12%** | **6,051** | **—** | **—** | **6,051** | **6,069** |
| Obligations under finance leases | **5%** | **509** | **11** | **—** | **520** | **455** |
| | | **15,844** | **11** | **—** | **15,855** | **15,728** |
| 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 |
| Other borrowings | 5% | 5,317 | 66,664 | — | 71,981 | 62,833 |
| Promissory notes | 12% | 13,420 | — | — | 13,420 | 12,718 |
| Convertible bonds | 13% | — | 40,000 | — | 40,000 | 29,712 |
| Obligations under finance leases | 3% | 675 | 181 | — | 856 | 748 |
| | | 30,060 | 106,845 | — | 136,905 | 116,659 |

## 44. FINANCIAL INSTRUMENTS (Continued)

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

#### (b) Liquidity risk (Continued)

| | Weighted average effective interest rate | Less than 1 year | 1 to 5 years | Over 5 years | Total un-discounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **The Company** | | | | | | |
| **At 31 December 2014** | | | | | | |
| Amount due to a former director | **—** | **64** | **—** | **—** | **64** | **64** |
| Accruals and other payables | **—** | **3,923** | **—** | **—** | **3,923** | **3,923** |
| Promissory notes | **12%** | **6,051** | **—** | **—** | **6,051** | **6,069** |
| | | **10,038** | **—** | **—** | **10,038** | **10,056** |
| At 30 June 2014 | | | | | | |
| Amount due to a former director | — | 64 | — | — | 64 | 64 |
| Accruals and other payables | — | 6,266 | — | — | 6,266 | 6,266 |
| Promissory notes | 12% | 13,420 | — | — | 13,420 | 12,718 |
| Convertible bonds | 13% | — | 40,000 | — | 40,000 | 29,712 |
| Other borrowings | 5% | 3,917 | 66,664 | — | 70,581 | 61,433 |
| | | 23,667 | 106,664 | — | 130,331 | 110,193 |

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 44. FINANCIAL INSTRUMENTS (Continued)

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

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

| | **31.12.2014** | | 30.06.2014 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$000* |
| Promissory notes | **6,069** | **6,051** | 12,718 | 12,715 |
| Convertible bonds | **—** | **—** | 29,712 | 30,002 |

There were no transfers between Level 1 and 2, or transfers into or out of Level 3 in the current period and prior year.

## 45. LITIGATION AND CONTINGENT LIABILITIES

Save as disclosed in elsewhere of the consolidated financial statements, the Group has the following litigation and contingent liabilities:

(a) As disclosed in the Company's announcement 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, 3 May 2013 and 12 January 2015 respectively and the sub-section headed "Litigation" in the section headed "Management Discussion and Analysis" of the annual report dated 18 September 2014 for the year ended 30 June 2014 in relation to, among other matters, the deed of termination, entered into between BSHK and 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 Action No. 1775 of 2012 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 to the Company for the recovery of the outstanding amount due by Mr. Shum.

## 45. LITIGATION AND CONTINGENT LIABILITIES (Continued)

(a) (Continued)

As Mr. Shum defaulted to settle the outstanding amount due to the Company, the Company applied to the High Court of Hong Kong Special Administrative Region (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 (the "**Court of First Instance**") 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 of First Instance 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 of First Instance 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 of First Instance 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 application by Mr. Shum for setting aside the Summary Judgment was dismissed by the Court of First Instance on 12 January 2015. On 14 January 2015, the Court of First Instance handed down an addendum for the grant of the Charging Orders and Garnishee Orders absolute. On 26 January 2015, Mr. Shum filed a summons for an application to vary the costs order nisi granted in the judgment dated 12 January 2015. A hearing of the summons was held on 10 March 2015. On 11 March 2015, the Court of First Instance handed down a judgment dismissing the application from Mr. Shum.

## 45. LITIGATION AND CONTINGENT LIABILITIES (Continued)

(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 PRC.

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 in the aggregate amount of approximately RMB2,868,000 (equivalent to approximately HK$3,620,000) 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 in the aggregate amount of approximately RMB2,866,000 (equivalent to approximately HK$3,620,000) and the default payment until the day of actual repayment (which is in aggregate amount of approximately RMB1,369,000 (equivalent to approximately HK$1,729,000) as at 31 January 2014), totalling amounted to approximately RMB4,235,000 (equivalent to approximately HK$5,349,000);

(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 in the aggregate amount of approximately RMB2,000 (equivalent to approximately HK$3,100) and the interest loss until the day of actual repayment (which is in aggregate amount of approximately RMB300 (equivalent to approximately HK$400)), totalling amounted to approximately RMB3,000 (equivalent to approximately HK$3,500);

(iii) order the appraisal fee of RMB7,500 (equivalent to approximately HK$10,000) for the security for the application for preservation of property be borne jointly by Yaji and the Company; and

## 45. LITIGATION AND CONTINGENT LIABILITIES (Continued)

(b) (Continued)

(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 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.

## 45. LITIGATION AND CONTINGENT LIABILITIES (Continued)

(b) (Continued)

Three hearings were held by the People's Court of Huadu District on 16 June 2014, 30 June 2014 and 15 August 2014 respectively.

With reference to the announcements of the Company dated 29 September 2014, 3 December 2014 and 20 January 2015, on 24 September 2014, the Group received the judgments of the Civil Proceedings (the "**Judgments**") issued by the People's Court of Huadu District, Guangzhou City on 19 September 2014, Guangdong Province of the People's Republic of China (the "**People's Court**"), pursuant to which, the People's Court made the following principal orders:

(i) order Yaji to pay to Yiying within 10 days from the date of the Judgments the outstanding management fees in the total sum of approximately RMB2,616,000 (equivalent to approximately HK$3,304,000) and the default payment until the day of actual repayment;

(ii) dismiss the claims against the Company set out in the Writs of Civil Proceedings.

Pursuant to the Judgments, Yaji and Yiying may, within 15 days from receipt of the Judgments, lodge an appeal to the Intermediate People's Court of Guangzhou City, Guangdong Province of the People's Republic of China against the Judgments and the Company may, within 30 days from receipt of the Judgments, lodge an appeal to the Intermediate People's Court of Guangzhou City, Guangdong Province of the People's Republic of China against the Judgments.

On 3 December 2014, the Company issued an announcement in which the Company has been informed by its PRC legal advisers that Yaji has filed appeals (the "**Appeals**") against the Judgments and the hearing for the Appeals is fixed on 11 December 2014. Yiying has not filed any appeals against the Judgments.

On 20 January 2015, the Company issued an announcement that the Appeals were dismissed by the Intermediate People's Court of Guangzhou City, Guangdong Province of the People's Republic of China (the "**Intermediate People's Court**") on 14 January 2015 according to the relevant judgments received by the PRC legal advisers to the Company from the Intermediate People's Court in the afternoon on 19 January 2015. As such, no provision for the outstanding management fees and utilities and miscellaneous fees was made in the consolidated financial statements of the Group for the six months ended 31 December 2014.

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

## 46. 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 23 January 2015, the Company received a writ of summons in the High Court Action No. 200 of 2015 issued by Mr. Shum as the plaintiff against the Company as the defendant for the following claims:

(i) the Judgment in High Court Action No. 1775 of 2012 dated 6 September 2013, is relating to which the Court of First Instance the High Court of Hong Kong adjudged that Mr. Shum (a) 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; and (b) shall pay the Company the costs of this action including the costs of and occasioned by the Company's application for summary judgment to be taxed if not agreed, entered against Mr. Shum be set aside;

(ii) loss and damages suffered by Mr. Shum as a result of the Judgement being obtained against him;

(iii) an order for discovery upon oath of all matters relating to the foregoing;

(iv) an order for payment of all sums found due to Mr. Shum together with the interest thereon at such rate and for such period as the High Court may deem just pursuant to the High Court Ordinance;

(v) the costs; and

(vi) further or other relief.

The Company and the Directors are in the process of seeking legal advice in respect of the legal proceedings. No provision for the claims of such legal proceedings was made for the six months ended 31 December 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

## 46. EVENTS AFTER REPORTING PERIOD (Continued)

(b) On 17 February 2015, the Company as issuer entered into a conditional subscription agreement with six investors (the "**Subscribers**"), which are independent third parties, as subscribers in relation to a proposed subscription of new ordinary shares and convertible preferred shares of the Company (the "**Subscription Shares**") by the Subscribers (the "**Proposed Subscription**"). Subject to satisfaction and/or waiver (as the case may be) of the terms and conditions set out in the conditional subscription agreement, the Subscribers, in aggregate, will hold more than 50% of the then voting rights in the Company. Pursuant to the conditional subscription agreement, one of the Subscribers who will subscribe for the largest portion of the Subscription Shares and who will own 42.86% of the ordinary shares of the Company in issue as enlarged by the allotment and issue of the Subscription Shares (assuming none of the convertible preferred shares of the Company to be subscribed by the Subscribers are converted) and 40.00% of the ordinary shares of the Company as enlarged by the allotment and issue of the Subscription Shares and upon conversion in full of the convertible preferred shares of the Company to be subscribed by the Subscribers, has undertaken that, following and subject to completion of the conditional subscription agreement, it will make an unconditional mandatory general offer (the "**Offer**") in compliance with the Hong Kong Code on Takeovers and Mergers in cash for all the ordinary shares of the Company (other than those already owned by or agreed to be acquired by it and parties acting in concert with it including a certain number of the ordinary shares of the Company held by Company's existing controlling shareholder (which is considered a party acting in concert with the Subscribers as a result of certain non-disposal undertakings between it and the Subscribers) in respect of which existing controlling shareholder has undertaken not to accept the Offer). On 5 March 2015, the Company has submitted a draft joint announcement relating to the Proposed Subscription and the Offer to the Securities and Futures Commission and the Stock Exchange for vetting. As of the date of the report, the draft joint announcement is being reviewed by the Securities and Futures Commission and the Stock Exchange is pending their clearance for publication.

## 47. COMPARATIVE INFORMATION

Certain comparative amounts have been reclassified to conform with the current period presentation.

## 48. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2015.

# FINANCIAL SUMMARY

| | For the six months ended 31 December 2014 | For the twelve months ended 30 June 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | **HK$'000** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Results** | | | | | |
| Turnover | **22,084** | 27,582 | 8,140 | 702 | 53,400 |
| Profit/(loss) for the year attributable to: | | | | | |
| Owners of the Company | **(48,939)** | (11,768) | (23,568) | (100,389) | (185,680) |
| Non-controlling interests | **1,896** | 1,150 | — | — | — |
| | **(47,043)** | (10,618) | (23,568) | (100,389) | (185,680) |

## Assets and liabilities

| | As at 31 December 2014 | As at 30 June 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | **HK$'000** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **90,366** | 141,874 | 53,831 | 57,679 | 134,210 |
| Total liabilities | **(41,310)** | (140,932) | (51,917) | (32,206) | (24,440) |
| Non-controlling interests | **(3,757)** | (1,861) | — | — | — |
| Balance of shareholders' funds | **45,299** | (919) | 1,914 | 25,473 | 109,770 |