2018
Annual Report

GRAND PEACE GROUP HOLDINGS LIMITED
福澤集團控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code : 08108

* For identification purpose only

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Given that the companies listed on the GEM are generally small and mid-sized companies, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on the GEM.

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*This report, for which the directors of the Company (the "**Directors**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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 enquiries, 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.*

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Sun, Miguel
Mr. He Weiqing
Mr. Wong Wai Leung *(Appointed on 2 January 2018)*
Mr. Li Ge *(Resigned on 19 March 2018)*
Mr. Cheng Wai Keung *(Resigned on 16 March 2018)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chin Kwan Lam, Raymond *(Appointed on 1 June 2018)*
Mr. Huen Ho Yin *(Appointed on 1 June 2018)*
Mr. Huang Hongbin *(Appointed on 1 August 2018)*
Mr. Tam Yiu Cheung *(Terminated on 9 May 2018)*
Mr. Liu Qing Chen *(Terminated on 9 May 2018)*
Ms. Tan Xiao Yan *(Terminated on 9 May 2018)*

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1005, 10/F., C.C. Wu Building,
302-8 Hennessy Road,
Wanchai,
Hong Kong

AUDIT COMMITTEE

Mr. Chin Kwan Lam, Raymond
(Chairman) (Appointed on 1 June 2018)
Mr. Huen Ho Yin *(Appointed on 1 June 2018)*
Mr. Huang Hongbin *(Appointed on 1 August 2018)*
Mr. Tam Yiu Cheung *(Terminated on 9 May 2018)*
Mr. Liu Qing Chen *(Terminated on 9 May 2018)*
Ms. Tan Xiao Yan *(Terminated on 9 May 2018)*

REMUNERATION COMMITTEE

Mr. Huen Ho Yin *(Chairman) (Appointed on 1 June 2018)*
Mr. Chin Kwan Lam, Raymond *(Appointed on 1 June 2018)*
Mr. Huang Hongbin *(Appointed on 1 August 2018)*
Mr. Tam Yiu Cheung (Terminated on 9 May 2018)
Mr. Liu Qing Chen (Terminated on 9 May 2018)
Ms. Tan Xiao Yan (Terminated on 9 May 2018)

NOMINATION COMMITTEE

Mr. Huang Hongbin *(Chairman) (Appointed on 1 August 2018)*
Mr. Huen Ho Yin *(Appointed on 1 June 2018)*
Mr. Chin Kwan Lam, Raymond *(Appointed on 1 June 2018)*
Mr. Tam Yiu Cheung *(Terminated on 9 May 2018)*
Mr. Liu Qing Chen *(Terminated on 9 May 2018)*
Ms. Tan Xiao Yan *(Terminated on 9 May 2018)*

INVESTMENT COMMITTEE

Mr. He Weiqing *(Chairman) (Appointed on 18 July 2018)*
Mr. Wong Wai Leung *(Appointed on 18 July 2018)*
Mr. Chin Kwan Lam, Raymond *(Appointed on 18 July 2018)*

COMPLIANCE OFFICER

Mr. Wong Wai Leung (Appointed on 19 March 2018)
Mr. Li Ge (Resigned on 19 March 2018)

AUTHORISED REPRESENTATIVES

Mr. Wong Wai Leung (Appointed on 19 March 2018)
Mr. Hung Kai Ming
Mr. Li Ge (Resigned on 19 March 2018)

COMPANY SECRETARY

Mr. Hung Kai Ming, CPA, FCCA

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Claredon House, 2 Church Street,
Hamilton HM 11, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPLIANCE ADVISER

TC & Co., Solicitors
Units 2201-2203, 22/F., Tai Tung Building,
No. 8, Fleming Road, Wanchai,
Hong Kong

AUDITORS

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

GEM STOCK CODE

08108

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of the directors (the "**Directors**") of Grand Peace Group Holdings Limited (the "**Company**"), I am pleased to report the annual results of the Company together with its subsidiaries (collectively referred to as the "**Group**") for the fiscal year ended 31 December 2018.

BUSINESS AND FINANCIAL REVIEW

The reporting businesses of the Group for 2018 are funeral business, loan financing business and elderly home business.

For the funeral business in Hong Kong, the Group's audited total revenue from the provision of funeral services and sale of funeral-related products amounted to approximately HK $81,385,000, while the audited segment profit# was approximately HK$11,296,000.

For the funeral business in Mainland China, during the year ended 31 December 2018, the Group has not recorded a turnover from the Huidong cemetery , while the audited segment loss# was approximately HK$1,263,000.

The Group's audited total revenue for the year ended 31 December 2018 from the provision of funeral services and sale of funeral-related products in Hong Kong and Mainland China amounted to approximately HK$81,385,000, representing a decrease of 16.73% as compared to the same period of last year of approximately HK$97,740,000, while the audited segment profit# amounted to approximately HK$10,033,000.

For the loan financing business, for the year ended 31 December 2018, the audited revenue of the loan financing business of the Group amounted to approximately HK$9,777,000, while the audited segment profit# amounted to approximately HK$7,447,000.

#: Segment profit/loss is the profit/loss earned by each segment, except that there is no distribution of undistributed corporate expenses, financial costs and income tax expenses.

惠州市福澤頤養服務有限公司, a joint venture company (the "**JV Company**") established in the PRC by Most Fame (China) Limited ("**Most Fame**"), an indirect wholly-owned subsidiary of the Company, together with an independent third party, is principally engaged in the construction, management and operation of a social elderly nursing home in the Huidong County, Huizhou, the Guangdong Province, the PRC. The JV Company will enable the joint venture parties to develop the business of operating a social elderly nursing home in the Guangdong Province, which will attract Hong Kong elderly to move in. We believe that the proposed social elderly nursing home will bring synergistic effect to the cemetery operated by the Group in Huidong.

Since the elderly nursing home is currently still under construction, no income has been generated from the elderly nursing home business during the Period.

PROSPECTS

Looking into the future, the Group will continue to commit to the development of the existing businesses, take prudent steps to strengthen its management and operation capability, and actively seek other businesses that are conducive to bringing more robust profits to repay the shareholders for their support.

I would like to thank all the shareholders and the Board for their unswerving support and confidence to the Group.

I also express my sincere gratitude to our customers and business partners. On behalf of the Group, I would also like to thank our staff for their dedication and valuable contributions to the Group.

Mr. Sun Miguel
Executive Director

Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the "**Board**") of the directors (the "**Directors**") of Grand Peace Group Holdings Limited (the "**Company**") is pleased to report the audited annual results of the Company together with its subsidiaries (collectively referred to as the "**Group**") for the fiscal year ended 31 December 2018.

BUSINESS AND FINANCIAL REVIEW

The reporting businesses of the Group for the year ended 31 December 2018 are funeral business, loan financing business and elderly home business.

The Group's audited total operating revenue for the 12 months ended 31 December 2018 amounted to approximately HK$91,162,000, representing a decrease of 19.74% as compared to the same period of last year. This was mainly due to (i) the expiration of the right granted by the Hong Kong Special Administrative Region Government to operate, manage and maintain the public funeral parlour entitled "Grand Peace Funeral Parlour" at Cheong Hang Road, Hung Hum, Hong Kong had already expired on 31 March 2017, consequently, no operating revenue has been generated from the Grand Peace Funeral Parlour during the year and (ii) the decline of the loan financing business.

FUNERAL BUSINESS

For the 12 months ended 31 December 2018, the Group recorded an audited total revenue of approximately HK$81,385,000 from the provision of funeral services and sale of funeral-related products and an audited gross profit of approximately HK$31,724,000.

For the 12 months ended 31 December 2018, the Group recorded an audited total revenue of HK$81,385,000 from the provision of funeral services and the sale of funeral-related products in the Kowloon Funeral Parlour, an increase of 4.17% as compared to the same period of last year of approximately HK$78,127,000. The audited segment profit# was approximately HK$11,296,000 , an increase of 9.74% as compared to the same period of last year of approximately HK$10,293,000. The Group will continue to enhance promotion and advertising investment as well as personnel training to raise the utilization of the Kowloon Funeral Parlour, and endeavor to control costs and expenses.

For the funeral business in Mainland China, the Group has invested resources in developing the Huidong County Huaqiao Cemetery. The preliminary infrastructure work of the Huidong cemetery (including the road landscaping and greening in the cemetery area) has completed and commenced trial operation. For the year ended 31 December 2018, the Group has not recorded an audited revenue from the provision of funeral services and the sale of funeral-related products in the Huidong cemetery, the audited segment loss# was approximately HK$ 1,263,000, representing a decrease of approximately 25.62% as compared to the audited segment loss# for the same period of last year of approximately HK$1,698,000. Due to the fact that the Huidong cemetery has not been recognized by customers, the Group will continue to enhance promotion and advertising investment to stimulate the marketing and sales of the Huidong cemetery.

LOAN FINANCING BUSINESS

Revenue from the loan financing business was mainly generated by a finance company an indirect wholly-owned subsidiary of the Company, which holds a valid Money Lender License under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) qualifying for providing loan financing services to clients.

For the year ended 31 December 2018, the audited total interest income of the Group from providing loan financing services was approximately HK$9,777,000, representing a decrease of 38.28% as compared to the same period of last year of approximately HK$15,840,000, segment profit# was approximately HK$7,447,000, representing a decrease of 47.09% as compared to the same period of last year of approximately HK$14,074,000. This was mainly due to the decline of the loan financing business.

MANAGEMENT DISCUSSION AND ANALYSIS

ELDERLY HOME BUSINESS

惠州市福澤頤養服務有限公司, a joint venture company (the "**JV Company**") established in the PRC by Most Fame (China) Limited ("**Most Fame**"), an indirect wholly-owned subsidiary of the Company, together with an independent third party, is principally engaged in the construction, management and operation of a social elderly nursing home in the Huidong County, Huizhou, the Guangdong Province, the PRC. The JV Company will enable the joint venture parties to develop the business of operating a social elderly nursing home in the Guangdong Province, which will attract Hong Kong elderly to move in. We believe that the proposed social elderly nursing home will bring synergistic effect to the cemetery operated by the Group in Huidong.

Since the elderly nursing home is currently still under construction, no income has been generated from the elderly nursing home business during the Period.

PROSPECTS

The Group will remain focusing on its funeral business in the Kowloon Funeral Parlour and in Huidong of China.

The Group will continue to seek and identify other businesses that are conducive to bringing more robust profits, and form growth drivers through acquiring and developing different businesses.

We believe that the strategy of diversification will add value to the shareholders' equity and reach to the purpose of dispersing business risks.

APPOINTMENT AND RESIGNATION OF EXECUTIVE DIRECTORS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER AND CHANGE OF AUTHORISED REPRESENTATIVE AND COMPLIANCE OFFICER AND ESTABLISHMENT OF INVESTMENT COMMITTEE

Mr. Wong Wai Leung has been appointed as Executive Director with effect from 2 January 2018. He has been appointed as an Authorised Representative and the Compliance officer of the Company with effect from 19 March 2018. He has been appointed as a member of the Investment Committee with effect from 18 July 2018.

Mr. He Weiqing has been appointed as the chairman of the Investment Committee with effect from 18 July 2018.

Mr. Li Ge resigned as an Executive Director, the Chairman of the Board and the Chief Executive Officer of the Company in pursuit of his personal business and development and ceased to be Authorised Representative and the Compliance Officer of the Company with effect from 19 March 2018.

Mr. Cheng Wai Keung resigned as an Executive Director in pursuit of his personal business and development with effect from 16 March 2018.

For details, please refer to the announcements of the Company dated 2 January 2018, 16 March 2018, 19 March 2018 and 19 July 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

APPOINTMENT AND RESIGNATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS AND CHANGE OF CHAIRMAN AND MEMBERSHIP OF AUDIT COMMITTEE, REMUNERATION COMMITTEE AND NOMINATION COMMITTEE AND ESTABLISHMENT OF INVESTMENT COMMITTEE

Mr. Chin Kwan Lam, Raymond has been appointed as an Independent Non-executive Director, a member and the chairman of the Audit Committee, a member of each of the Remuneration Committee and the Nomination Committee with effect from 1 June 2018. He has been appointed as a member of the Investment Committee with effect from 18 July 2018.

Mr. Huen Ho Yin has been appointed as an Independent Non-executive Director, a member of each of the Audit Committee and the Nomination Committee, and a member and the chairman of the Remuneration Committee with effect from 1 June 2018.

Mr. Huang Hongbin has been appointed as an Independent Non-executive Director, a member of each of the Audit Committee and the Remuneration Committee and a member and the chairman of the Nomination Committee with effect from 1 August 2018.

As the resolution to re-elect Mr. Tam Yiu Cheung as Director of the Company has not been passed by the Shareholders of the Company at the 2018 AGM. As a result, Mr. Tam Yiu Cheung ceased to be an Independent Non-executive Director of the Company after the 2018 AGM. Consequently, Mr. Tam ceased to be the chairman and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from 9 May 2018.

As the resolution to re-elect Mr. Liu Qing Chen as Director of the Company has not been passed by the Shareholders of the Company at the 2018 AGM. As a result, Mr. Liu Qing Chen ceased to be an Independent Non-executive Director of the Company after the 2018 AGM. Consequently, Mr. Liu also ceased to be members of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from 9 May 2018.

As the resolution to re-elect Ms. Tan Xiao Yan as Director of the Company has not been passed by the Shareholders of the Company at the 2018 AGM. As a result, Ms. Tan Xiao Yan ceased to be an Independent Non-executive Director of the Company after the 2018 AGM. Consequently, Ms. Tan also ceased to be members of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company with effect from 9 May 2018.

For details, please refer to the announcements of the Company dated 9 May 2018, 1 June 2018, 19 July 2018 and 1 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 45 to the consolidated financial statements.

FINANCIAL REVIEW

The Group generated approximately HK$91,162,000 in total revenue in 2018, representing an decrease of 19.74% as compared with year 2017.

The breakdown of the turnover is set out below:

	2018		2017		
	HK$ million	**%**	HK$ million	%	Change
Provision of funeral services and sales of funeral related products	**81.4**	**89%**	97.7	86%	(16.68%)
Loan interest income	**9.8**	**11%**	15.8	14%	(37.97%)
Total	**91.2**	**100%**	113.5	100%	

SIGNIFICANT INVESTMENT

The Group had no significant investment held in the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically managed and controlled by the senior management. There was no significant change in respect of treasury and financing policies from the information disclosed in the Group's annual report of 2018.

As at 31 December 2018, cash and bank balances of the Group was approximately HK$3,082,000 (2017: HK$31,777,000), approximately 2.19% of the Group's cash was denominated in Renminbi and 95.97% of the Group's cash was denominated in Hong Kong Dollars. The Group's exposure to exchange fluctuation was minimal.

The Group has no bank borrowings throughout the year under review.

As at 31 December 2018, the total borrowings of the Group amounted to approximately HK$211,648,000 (2017: approximately HK$191,180,000), which include unsecured bonds of HK$204,448,000 at the effective interest rates ranging from 4.64% per annum to 27.27% per annum and an unsecured short-term borrowing of HK$7,200,000 at the effective interest rates ranging from 3.5% per annum to 8% per annum.

CAPITAL STRUCTURE

The total number of issued shares of the Company was 922,719,512 as at 31 December 2018.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the Group had 62 employees in Hong Kong and one employee in the PRC (as at 31 December 2017: 63 employees in Hong Kong and 5 employees in the PRC), who were remunerated in accordance with their performance and market condition. In addition to salary, other benefits available to eligible employees include retirement benefits and medical insurance schemes. Total staff costs for the year 2018 amounted to approximately HK$14,355,000 (2017: approximately HK$21,582,000).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good.

CHARGE ON GROUP'S ASSETS

The Group did not have any charge on its assets as at 31 December 2018 (2017: The Group did not have any charge on its assets).

GEARING RATIO

As at 31 December 2018, the Group's gearing ratio was approximately 66.31% representing a percentage of the total borrowings over shareholders' equity (2017: 45.81%), and the net current assets was approximately HK$136,809,000 (2017: approximately HK$183,579,000).

FOREIGN CURRENCY EXPOSURE

As most of the Group's transactions are denominated in Renminbi and Hong Kong dollars, the Directors believe that the Group's exposure to exchange fluctuation was immaterial and the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities at 31 December 2018 (2017: nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

EXECUTIVE DIRECTORS

Mr. Sun, Miguel ("**Mr. Sun**"), aged 46, was appointed as an Executive Director on 24 February 2012. He graduated from the International Hotel Management Institute, Switzerland in 1994. Mr. Sun has served as a management trainee for the Crux Global Hotel Reservation Limited. He has also served as the business development manager for the Chant An Group in Taiwan, which designs and builds hotels, hospitals, and semi-conductor plants. Mr. Sun is the founder and a director of Netica Venture Limited, a venture capital company that focuses on wireless communications and the internet. Mr. Sun now hold the directorship in the Merit Vision Holdings Limited, the Earn Fine Limited, the Most Earning Limited, the Successful Action Limited, the Gainer Power Limited and the Arts & Cultural Exchange Limited which are a wholly owned subsidiaries of the Company.

Mr. He Weiqing ("**Mr. He**"), aged 54, was appointed as an Executive Director on 18 December 2017. He graduated from the Atmospheric Science Department of the Sun Yat-sen University in Guangzhou with a Bachelor of Science Degree in 1986, and in 1989, graduated from the Management School of the same university with a Master's Degree in Economics. Mr. He has long been engaged in corporate management, financial management and project investment and management. He had held senior positions at the headquarters and branches of a number of renowned companies in the People's Republic of China, and acted as the project manager of various asset management companies and private equity investment companies in Shenzhen. From 2011 to 2015, Mr. He served as a Vice President and the Chief Investment Officer of the China Internet Investment Finance Holdings Limited (Stock Code: 810) (formerly known as Opes Asia Development Limited), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Since 2015, Mr. He has held senior management positions at the Long Success International (Holdings) Limited (Stock Code: 8017) ("**Long Success**"), a company listed on the GEM of the Stock Exchange. The listing of Long Success was cancelled on 19 October 2016 pursuant to Rule 9.14 of the Rules Governing the Listing of Securities on the GEM. Mr. He now hold the directorship in the Most Earning Limited, the Successful Action Limited and the Arts & Cultural Exchange Limited which are wholly owned subsidiaries of the Company.

Mr. Wong Wai Leung ("**Mr. Wong"**), aged 40, was appointed as an Executive Director on 2 January 2018. He holds a Bachelor's Degree in Accountancy and a Master Degree's in Corporate Governance from The Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants, an associate member of The Hong Kong Institute of Chartered Secretaries and also an associate member of The Institute of Chartered Secretaries And Administrators in the United Kingdom. Mr. Wong has over 15 years of experience in auditing, financial reporting and financial management. Mr. Wong now hold the directorship in the Gainer Power Limited which is a wholly owned subsidiary of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chin Kwan Lam, Raymond ("**Mr. Chin**"), aged 57, was appointed as an Independent Non-executive Director on 1 June 2018, is an associate member of The Chartered Institute of Management Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chin is the founder and principal of both IMCL CPA Limited and Raymond Chin & Company CPA. He is currently the vice chairman of the General Union of Hong Kong Accounting Professionals and Staff and the honorable auditor of the Junior Chamber International Hong Kong. Mr. Chin has over 30 years experience in auditing and accountancy field.

Mr. Huen Ho Yin ("**Mr. Huen**"), aged 57, was appointed as an Independent Non-executive Director on 1 June 2018, holds a Bachelor of Laws (Hons) Degree from the Leicester University, United Kingdom and a Postgraduate Certificate in Laws from the University of Hong Kong. Mr. Huen has been practicing as a solicitor of the High Court of Hong Kong for approximately 30 years. His practice includes commercial litigation, corporation finance, liquidations and commercial arbitration. He is currently a senior partner of the law firm "Huen & Partners".

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Mr. Huang Hongbin ("Mr. Huang"), aged 52, was appointed as an Independent Non-executive Director on 1 August 2018, graduated from the Radioelectronics Department of the Sun Yat-sen University in Guangzhou with a Bachelor of Science Degree in 1988. He is currently the General Manager of DongGuan LongXin Digital Technology Co., Ltd. (東莞市龍信數碼科技有限公司). Mr. Huang has over 30 years experience in technology field and management.

COMPANY SECRETARY

Mr. Hung Kai Ming ("**Mr. Hung**"), aged 43, was appointed as the Company Secretary on 1 March 2015. Mr. Hung holds a Master of Professional Accounting from The Hong Kong Polytechnic University and an Honours Diploma in Accounting from Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University). Mr. Hung is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Hung has over 18 years of experience in accounting, auditing and finance.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements of Grand Peace Group Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 41 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

PRINCIPAL RISKS AND UNCERTAINTIES

Particulars of the principal risks and uncertainties are set out in note 5 to the consolidated financial statement. This discussion forms part of this Directors' Report.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal business segments during the year is set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's financial performance for the year ended 31 December 2018 and the financial position of the Group at the balance sheet date are set out in the consolidated financial statements on pages 33 to 36.

No dividend has been declared or proposed by the Directors of the Company in respect of the year ended 31 December 2018 (2017: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and restated/ reclassified as appropriate, is set out on page 120. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL AND EQUITY-LINKED AGREEMENT

Details of movements in the Company's share capital and share options during the year are set out in notes 33 and 34 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws (the "**Bye-laws**") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company or any of its subsidiaries has not purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statements and in the consolidated statement of changes in equity as set out in the consolidated financial statements on page 37.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's aggregate turnover with its five largest customers did not exceed 30 % of the Group's total turnover in 2018.

In the year under review, expenses arising from purchases of goods and provision of services from the Group's five largest suppliers accounted for 86.48% of the total cost of sales for the year and expenses arising from purchases of goods and provision of services from the largest supplier included therein amounted to 78.53%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

REPORT OF THE DIRECTORS

DONATION

During the year ended 31 December 2018, charity and other donation made by the Group amounted to approximately HK$200,000 in total. (2017: Nil).

COMPLIANCE WITH LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 December 2018.

ENVIRONMENTAL POLICIES

The Group understands the importance of environmental sustainability and protection and has adopted policies on pollution prevention, preservation of natural resources and adherence to environmental laws and regulations.

A separate environmental, social and governance report is expected to be published on the websites of the Stock Exchange and the Company no later than three months after the publication of this report.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group acknowledges the importance to maintain good relationship with its employees and customers for the achievement of its short-term and long-term business objectives.

For the year ended 31 December 2018, there was no serious and material dispute between the Group and its employees, customers and suppliers.

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 3 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and as at the date of this report were:

Executive Directors:

Mr. Sun, Miguel
Mr. He Weiqing
Mr. Wong Wai Leung *(Appointed on 2 January 2018)*
Mr. Li Ge *(Resigned on 19 March 2018)*
Mr. Cheng Wai Keung *(Resigned on 16 March 2018)*

Independent Non-executive Directors:

Mr. Chin Kwan Lam, Raymond *(Appointed on 1 June 2018)*
Mr. Huen Ho Yin *(Appointed on 1 June 2018)*
Mr. Huang Hongbin *(Appointed on 1 August 2018)*
Mr. Tam Yiu Cheung *(Terminated on 9 May 2018)*
Mr. Liu Qing Chen (*Terminated* on 9 May 2018)
Ms. Tan Xiao Yan *(Terminated on 9 May 2018)*

In accordance with Bye-laws no. 87(1), Mr. Sun, Miguel and Mr. He Weiqing will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("**AGM**").

In accordance with the Bye-law nos. 86(2) and 87(2), Mr. Chin Kwan Lam, Raymond, Mr. Huen Ho Yin and Mr. Huang Hongbin should hold office until the 2019 AGM and being eligible for re-election at the 2019 AGM.

The Company has received annual confirmations of independence from all of the Independent Non-executive Directors pursuant to the requirement under Rule 5.09 of the GEM Listing Rules and considers that all of them are independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Biographical details of the Directors and the Company Secretary of the Company are set out on page 10 to 11 of the annual report.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Directors' fees and other emoluments are determined by the Board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group with reference to the prevailing market conditions.

Details of the Directors' remunerations are set out in note 11 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

As at 31 December 2018, none of the Directors had any direct or indirect interest in any assets which were acquired or disposed of by, or leased to, the Company or any of its subsidiaries, or are proposed to acquired or disposed of by, or lease to, the Company or any of its subsidiaries.

SHARE OPTION SCHEME

On 9 December 2010, the company adopted a share option scheme (the "**Share Option Scheme**"). Pursuant to the Share Option Scheme, the Board, may for a consideration of HK$1.00, offer to selected eligible persons (as defined in the circular of the Company dated 23 November 2010) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders' circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of them Company dated 23 November 2010).

The maximum number of shares available for issue upon the exercise of the options under the Share Option Scheme is 686,782 shares, representing 10% of 6,867,822 shares, the total issued shares of the Company at the date on which the Share Option Scheme was adopted (as adjusted to reflect the share consolidation effective on 29 August 2013, 10 June 2014 and 11 August 2016 respectively and Share Sub-division effective on 18 April 2017).

The Share Option Scheme became effective for a period of 10 years commencing on 9 December 2010 (the date on which the Share Option Scheme was adopted).

The details and major provisions of the Share Option Scheme were set out in the circular of the Company dated 23 November 2010.

The Company has not grant any options under the Share Option Scheme for the year ended 31 December 2018.

As at the date of this report, none of the Directors or chief executives of the Company held any share options of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" below and the share option scheme as disclosed above, at no time during the year there were any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE ("THE SFO")

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 of the GEM Listing Rules were as follows:

Long positions in ordinary shares of HK$0.5 each of the Company

	Number of shares held, capacity and nature of interest					
Name of Director	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Beneficiary of a trust**	**Total**	**Approximate percentage of the Company's total issued capital** (Note 1)
–	–	–	–	–	–	–

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 922,719,512 issued shares as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares of the Company

So far as were known to the Directors or chief executive of the Company, as at 31 December 2018, the following persons (other than the Directors and chief executive of the Company as disclosed above) had interests and/or short positions of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

REPORT OF THE DIRECTORS

Long positions in the ordinary shares of HK$0.5 each of the Company

Name	Note	Nature and capacity of interest	Number of ordinary shares held	Approximate percentage of the company's total issued capital
Substantial Shareholder				
Mr. Chung Tsai Kin ("**Mr. Chung**") and Ms. Cheung Po Yuet ("**Ms. Cheung**")	1,2	Beneficial owner	121,108,000	13.13%

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 922,719,512 issued shares as at 31 December 2018.

(2) 103,672,000 Shares of these Shares are held by Mr. Chung as beneficial owner. The remaining 17,436,000 Shares are held by his spouse Ms. Cheung as beneficial owner. By virtue of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), Mr. Chung and Ms. Cheung are deemed, or taken to be interested in the Shares held by their respective spouse, i.e. Ms. Cheung and Mr. Chung.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other persons, other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

COMPETING INTEREST

None of the Directors or the substantial shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates has any interest in any business which competed or might compete with the business of the Group during the year and as at the date of this report.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

As most of the Group's transactions are denominated in Hong Kong dollars and Renminbi, the Directors believe that the Group's exposure to exchange fluctuation was immaterial and the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force throughout the year. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

Principal governance practices adopted by the Company are set out in the Corporate Governance Report in pages 18 to 27.

MATERIAL EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 45 to the consolidated financial statements.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 7 July 2000 with its written terms of reference pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the Directors attending the Board meeting held on 22 March 2016, new terms of reference were adopted by the Audit Committee. Please refer to the announcement of the Company dated 22 March 2016 under the heading "Audit Committee Terms of Reference" for details. As at the day of this report, the Audit Committee comprised three members, namely Mr. Chin Kwan Lam, Raymond, Mr. Huen Ho Yin and Mr. Huang Hongbin, all being Independent Non-executive Directors of the Company.

The primary duties of the Audit Committee are to review and supervise the financial reporting process, audit plan and relationship with external auditors, risk management and the internal control systems of the Group and to provide advices and recommendations to the Board for review and follow-up.

During the year, the Audit Committee had held 4 meetings. The Audit Committee has reviewed the Group's financial statements for the year ended 31 December 2018 and provided advice and recommendations to the Board. After the review of the consolidated financial statements, the members of the Audit Committee are of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other applicable laws and regulations and that adequate disclosure had been made.

AUDITORS

A resolution for the reappointment of HLB Hodgson Impey Cheng Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

There have been no changes of auditors in the past three years.

On behalf of the Board
Mr. Sun, Miguel
Executive Director

Hong Kong
29 March 2019

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of corporate governance and following the principles set out in the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules (the "**CG Code**").

During the year, save as disclosed in the paragraphs headed "Chairman and the Chief Executive Officer" (Code Provision A.2.1) below, the Company complied with and did not deviate from the code provisions as set out in the CG Code.

The Board regularly monitors and reviews the Group's progress in respect of corporate governance practices to ensure compliance.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year 2018, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry with Directors and Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

BOARD OF DIRECTORS

The Board comprises six Directors, of whom three are Executive Directors, and three are Independent Non-executive Directors.

The Board members during the year 2018 and up to the date of this report were:

Executive Directors

Mr. Sun, Miguel
Mr. He Weiqing
Mr. Wong Wai Leung *(Appointed on 2 January 2018)*
Mr. Li Ge *(Resigned on 19 March 2018)*
Mr. Cheng Wai Keung *(Resigned on 16 March 2018)*

Independent Non-executive Directors

Mr. Chin Kwan Lam, Raymond *(Appointed on 1 June 2018)*
Mr. Huen Ho Yin *(Appointed on 1 June 2018)*
Mr. Huang Hongbin *(Appointed on 1 August 2018)*
Mr. Tam Yiu Cheung *(Terminated on 9 May 2018)*
Mr. Liu Qing Chen *(Terminated on 9 May 2018)*
Ms. Tan Xiao Yan *(Terminated on 9 May 2018)*

The Independent Non-executive Directors are responsible for making independent judgment on the issues relating to the strategy, performance, conflict of interest and management process of the Group to ensure that the interest of the shareholders as a whole have been duly considered. Furthermore, in accordance with the requirement of the GEM Listing Rules, the Audit Committee was chaired by an Independent Non-executive Director with appropriate accounting qualifications and professional experiences.

The Board considers that all the Independent Non-executive Directors are independent and has received from each of them the annual confirmation of independence required by Rule 5.09 of the GEM Listing Rules.

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of the management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board focuses on the overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates the day-to-day operations of the Group to the Executive Directors and senior management, while reserving certain key matters for its approval.

Decisions of the Board are communicated to the management through the Executive Directors who attend Board meetings.

There is no relationship (whether financial, business, family or other material/relevant relationships) among the members of the Board.

No corporate governance committee has been established by the Company and the Board is responsible for performing the corporate governance duties, which include:

(1) to develop and review the policies and practices on corporate governance of the Group;

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

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

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

(5) to review the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company.

CORPORATE GOVERNANCE REPORT

The Board held 90 meetings during the year 2018. Details of the attendance of the Board meetings are as follows:

Name of Directors	Meetings attended/ eligible to attend	Attendance rate
Executive Directors		
Mr. Sun, Miguel	90/90	100%
Mr. He Weiqing	90/90	100%
Mr. Wong Wai Leung *(Appointed on 2 January 2018)*	90/90	100%
Mr. Li Ge *(Resigned on 19 March 2018)*	18/18	100%
Mr. Cheng Wai Keung *(Resigned on 16 March 2018)*	16/17	94.12%
Independent Non-executive Directors		
Mr. Chin Kwan Lam, Raymond *(Appointed on 1 June 2018)*	42/42	100%
Mr. Huen Ho Yin *(Appointed on 1 June 2018)*	42/42	100%
Mr. Huang Hongbin *(Appointed on 1 August 2018)*	26/26	100%
Mr. Tam Yiu Cheung *(Terminated on 9 May 2018)*	32/34	94.12%
Mr. Liu Qing Chen *(Terminated on 9 May 2018)*	34/34	100%
Ms. Tan Xiao Yan *(Terminated on 9 May 2018)*	34/34	100%

All Directors were given at least 14 days notice for a regular board meeting. For all other board meetings, the Directors were given reasonable notice. Agenda and relevant documents of the meeting was given to all the Directors before the date of the board meeting; the initial draft of the minutes of the board meeting was sent to the Directors for reviewing and providing comments; and the final draft of the minutes will be sent to the Directors for signature and records.

Directors can access to the Company Secretary or the intermediary for advices with a view to ensuring that board procedures and all applicable rules and regulations are followed. The minutes of board meeting were kept by the Company Secretary, and such minutes were opened for inspection at any reasonable time on reasonable notice by any Director.

DIRECTORS' ATTENDANCE OF THE GENERAL MEETING (CODE PROVISION A.6.7)

Pursuant to Code Provision A.6.7, Independent Non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of shareholders.

During the year 2018, the Company held one general meeting, being the 2018 annual general meeting held on 9 May 2018.

Details of the attendance of the general meetings are as follows:

Name of Directors	Meetings attended/ eligible to attend	Attendance rate
Executive Directors		
Mr. Sun, Miguel	1/1	100%
Mr. He Weiqing	1/1	100%
Mr. Wong Wai Leung *(Appointed on 2 January 2018)*	1/1	100%
Mr. Li Ge *(Resigned on 19 March 2018)*	N/A	N/A
Mr. Cheng Wai Keung *(Resigned on 16 March 2018)*	N/A	N/A
Independent Non-executive Directors		
Mr. Tam Yiu Cheung *(Terminated on 9 May 2018)*	1/1	100%
Mr. Liu Qing Chen *(Terminated on 9 May 2018)*	1/1	100%
Ms. Tan Xiao Yan *(Terminated on 9 May 2018)*	1/1	100%
Mr. Chin Kwan Lam, Raymond *(Appointed on 1 June 2018)*	N/A	N/A
Mr. Huen Ho Yin *(Appointed on 1 June 2018)*	N/A	N/A
Mr. Huang Hongbin *(Appointed on 1 August 2018)*	N/A	N/A

CORPORATE GOVERNANCE REPORT

DIRECTORS' TRAINING

Each newly appointed Director has received comprehensive, formal and tailored made induction on appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities under the GEM Listing Rules and relevant regulatory requirements.

Pursuant the Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. During the year, all Directors have participated in appropriate continuous professional development including reading regulatory updates in relation to the Group's business, attending internal briefing sessions and reading materials relevant to the director's duties and responsibilities.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

Appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Group.

CHAIRMAN AND CHIEF EXECUTIVE (CODE PROVISION A.2.1)

Under the code provision A.2.1 of the CG Code, the roles of the Chairman and CEO should be separate and should not be performed by the same individual. There is not a post of the Chairman and CEO in the Company. The responsibilities of the chairman and chief executive of the Company were taken up by the other members of the Board. The Board will continuously review and improve the corporate governance practices and standards of the Group to ensure that business activities and decision-making processes are regulated in a proper and prudent manner.

DIRECTORS' SERVICE CONTRACTS

The three Executive Directors, Mr. Sun, Miguel, Mr. He Weiqing & Mr. Wong Wai Leung, and the three Independent Non-executive Directors, Mr. Chin Kwan Lam, Raymond, Mr. Huen Ho Yin, and Mr. Huang Hongbin, were all appointed by way of a formal appointment letter for a term of one year with automatic renewal subject to termination by not less than one month's notice in writing served by either party on the other. The appointment dates of each of the Directors as stated in their latest appointment letters are as follows:

Executive Directors

Mr. Sun, Miguel	1 January 2014
Mr. He Weiqing	18 December 2017
Mr. Wong Wai Leung	2 January 2018

Independent Non-executive Directors

Mr. Chin Kwan Lam, Raymond	1 June 2018
Mr. Huen Ho Yin	1 June 2018
Mr. Huang Hongbin	1 August 2018

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee comprises three Independent Non-executive Directors as at 31 December 2018, namely Mr. Huen Ho Yin (chairman), Mr. Chin Kwan Lam, Raymond and Mr. Huang Hongbin respectively.

The principal functions of the Remuneration Committee include:

– to recommend to the Board on the Company's policies and structure for the remuneration of the Directors and senior management of the Group;

– to recommend to the Board on the remuneration packages of all Directors and senior management of the Group;

– to review and approve the management's performance-based remuneration.

The written terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2018, the Remuneration Committee has held 3 meetings, and the matters under discussion include reviewing and recommending on the remuneration packages of all the then Board members.

Detail of the attendance of the Remuneration Committee meeting is as follows:

Name of members	Meetings attended/ eligible to attend	Attendance rate
Mr. Huen Ho Yin *(Chairman)* (Appointed on 1 June 2018)	1/1	100%
Mr. Chin Kwan Lam, Raymond (Appointed on 1 June 2018)	1/1	100%
Mr. Huang Hongbin (Appointed on 1 August 2018)	1/1	100%
Mr. Tam Yiu Cheung (Terminated on 9 May 2018)	2/2	100%
Mr. Liu Qing Chen (Terminated on 9 May 2018)	2/2	100%
Ms. Tan Xiao Yan (Terminated on 9 May 2018)	2/2	100%

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

On 1 March 2012, the Board established a Nomination Committee comprising Mr. Huang Hongbin (an Independent Non-executive Director) as the chairman, and Mr. Chin Kwan Lam, Raymond (an Independent Non-executive Director) and Mr. Huen Ho Yin (an Independent Non-executive Director) as its members.

The written terms of reference of the Nomination Committee (as revised on and became effective from 30 August 2013) are available on the websites of the Company and the Stock Exchange.

Given below are the main duties of the Nomination Committee:

(a) review the structure, size and diversity (including but not limited to gender, age, cultural and educational background, professional skills, knowledge and experience) of the Board annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(c) assess the independence of Independent Non-executive Directors;

(d) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive; and

(e) review the Board Diversity Policy, as appropriate; review the measurable objectives that the Board has set for implementing the Board Diversity Policy, and progress on achieving the objectives, and make recommendations to the Board on any of the aforesaid matters, and make disclosure of its review results in the Corporate Governance Report of the Company annually.

During the year 2018, the Nomination Committee has held 2 meetings, and the matters under discussion include assessing the structure, size and composition of the Board.

Name of members	**Meetings attended/ eligible to attend**	**Attendance rate**
Mr. Huang Hongbin *(Chairman)* (Appointed on 1 August 2018)	1/1	100%
Mr. Chin Kwan Lam, Raymond (Appointed on 1 June 2018)	1/1	100%
Mr. Huen Ho Yin (Appointed on 1 June 2018)	1/1	100%
Mr. Tam Yiu Cheung (Terminated on 9 May 2018)	1/1	100%
Mr. Liu Qing Chen (Terminated on 9 May 2018)	1/1	100%
Ms. Tan Xiao Yan (Terminated on 9 May 2018)	1/1	100%

BOARD DIVERSITY POLICY

The Company has adopted a Board Diversity Policy which sets the approach to achieve diversity within the Board. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

CORPORATE GOVERNANCE REPORT

The Board consists of 6 gentlemen. The Board will take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity.

The Nomination Committee will review and monitor the implementation of the Board Diversity Policy and report to the Board annually.

The following tables illustrate the diversity of the Board Members as of the date of this annual report:

	Age Group		
Name of Directors	**40 and below**	**41 to 50**	**51-60**
Mr. Sun Miguel		✓	
Mr. He Weiqing			✓
Mr. Wong Wai Leung	✓		
Mr. Chin Kwan Lam, Raymond			✓
Mr. Huen Ho Yin			✓
Mr. Huang Hongbin			✓

	Professional Experience			
Name of Directors	**Business Management**	**Accounting and Finance**	**Law**	**Technology**
Mr. Sun Miguel	✓			
Mr. He Weiqing	✓			
Mr. Wong Wai Leung		✓		
Mr. Chin Kwan Lam, Raymond		✓		
Mr. Huen Ho Yin			✓	
Mr. Huang Hongbin				✓

CORPORATE GOVERNANCE REPORT

The Nomination Committee had reviewed and is satisfied with the current composition of the Board.

NOMINATION POLICY

The Company has adopted a Nomination Policy which enables the Nomination Committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships. The Board is ultimately responsible for selection and appointment of new Directors.

The Board, through the delegation of its authority to the Nomination Committee, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skills critical to the Group's business to enable the Board to make sound and well considered decisions. Collectively, they have competencies in areas which are relevant and valuable to the Group.

The Nomination Committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required.

The Nomination Committee shall take into consideration criteria including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service when considering new director appointments to ensure that they have competencies in areas which are relevant and valuable to the Group and for the purpose of diversity perspectives appropriate to the requirement of the Company's business.

The Company shall review and reassess the Nomination Policy and its effectiveness on a regular basis or as required.

DIRECTOR NOMINATION PROCEDURE

Subject to the provisions in the Articles of Association of the Company and the GEM Listing Rules, if the Board recognises the need for an additional Director, the following procedure will be followed:

(1) The Nomination Committee and/or Board will identify potential candidates based on the criteria as set out in the Board Diversity Policy, possibly with assistance from external agencies and/or advisors;

(2) The Nomination Committee and/or the Company Secretary of the Company will then provide the Board with the biographical details and details of the relationship between the candidate and the Company and/or Directors, directorships held, skills and experience, other positions which involve significant time commitment and any other particulars required by the GEM Listing Rules, the Companies Act 1981 of Bermuda and other regulatory requirements for any candidate for appointment to the Board;

(3) The Nomination Committee would then make recommendation to the Board on the proposed candidate(s) and the terms and conditions of the appointment;

(4) The Nomination Committee should ensure that the proposed candidate(s) will enhance the diversity of the Board, being particularly mindful of gender balance;

(5) In the case of the appointment of an Independent Non-executive Director, the Nomination Committee and/or the Board should obtain all information in relation to the proposed Director to allow the Board to adequately assess the independence of the Director in accordance with the factors set out in Rules 5.09 of the GEM Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time; and

(6) The Board will then deliberate and decide on the appointment based upon the recommendation of the Nomination Committee.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

An amount of approximately HK$898,000 (2017: HK$780,000) was charged to the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 as auditors' fee.

The nature of audit and non-audit services provided by HLB Hodgson Impey Cheng Limited ("**HLB**") and fees paid to HLB set out below:

	HK$'000
Audit services	820
Other services	78
	898

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2000 to review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The Audit Committee comprised three Independent Non-executive Directors as at 31 December 2018, namely Mr. Chin Kwan Lam, Raymond (chairman), Mr. Huen Ho Yin and Mr. Huang Hongbin respectively.

In the year 2018, the Audit Committee had held 4 meetings. The Group's 2018 quarterly reports, 2018 half-yearly report, 2017 and 2018 annual results and 2017 and 2018 annual reports had been reviewed by the Audit Committee and were recommended to the Board for approval, and the Audit Committee was of the opinion that such reports and results were prepared in accordance with the applicable accounting standards and requirements. The Committee also reviewed the internal controls and risk management systems of the Group and provided opinions and recommendations to the Board for approval and follow-up.

The written terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

Details of the attendance records of the Audit Committee meetings are as follows:

Name of members	**Meetings attended/ eligible to attend**	**Attendance rate**
Mr. Chin Kwan Lam, Raymond *(Chairman)* (Appointed on 1 June 2018)	2/2	100%
Mr. Huen Ho Yin (Appointed on 1 June 2018)	2/2	100%
Mr. Huang Hongbin (Appointed on 1 August 2018)	2/2	100%
Mr. Tam Yiu Cheung (Terminated on 9 May 2018)	2/2	100%
Mr. Liu Qing Chen (Terminated on 9 May 2018)	2/2	100%
Ms. Tan Xiao Yan (Terminated on 9 May 2018)	2/2	100%

ACCOUNTABILITY, INTERNAL CONTROLS AND RISK MANAGEMENT

The Directors acknowledge their responsibility for preparing all information and representations contained in the consolidated financial statements of the Company for the year under review.

The Board recognises its responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group conducts periodic review on the overall adequacy and effectiveness of the Group's risk management and internal control systems, which cover financial, operational and compliance controls, to safeguard the Shareholders' investment and the Group's assets. A system of risk management and internal control procedures are designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against the risk of material misstatement, fraud or loss.

The Board has delegated to the Audit Committee its responsibility (with relevant authorities) of risk management and internal control. Consequently, the Audit Committee is responsible for the design, implementation and monitoring of the risk management and internal control systems. The management would report to the Audit Committee any identified deficiencies from time to time.

The Board, through the Audit Committee, reviews the risk management and internal controls annually. The Audit Committee has conducted a review of, and is satisfied with the effectiveness and adequacy of the risk management and internal control systems for the year ended 31 December 2018.

The statement of the external auditors of the Company about their reporting responsibilities on the Consolidated financial statements is set out in the auditors' report of the annual report of the Company for the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

Pursuant to code provision E.1.5 of the CG Code and Report, the Company should have a policy on payment of dividends which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

In accordance with the Company's Bye-laws, the Company has adopted a Dividend Policy. The Policy provides that the Company in general meeting may from time to time declare dividends in any currency to be paid to the Shareholders of the Company but no dividend shall be declared in excess of the amount recommended by the Board. The Company in general meeting may also make a distribution to the Members out of any contributed surplus.

No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities.

Subject to compliance with applicable laws, rule and the Company's Bye-laws, the Company will declare and/or recommend the payment of dividends to Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions and so on.

The Company will review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

COMPANY SECRETARY

Mr. Hung Kai Ming has been appointed as the Company Secretary of the Company since 1 March 2015. Pursuant to the GEM Listing Rules, Mr. Hung has taken no less than 15 hours of the relevant professional training during the year.

SHAREHOLDERS' RIGHTS

1. Convene Special General Meeting

Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the 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; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

The notice period to be given to all the registered Shareholders for consideration of the proposal raised by the Shareholder(s) concerned at the special general meeting varies according to the nature of the proposal as follows:

– at least twenty-one (21) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes a special resolution of the Company; and

– at least fourteen (14) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

2. Put Enquiries to the Board

Shareholders can direct their questions to Tricor Tengis Limited, the Company's branch registrar and transfer office in Hong Kong, about their shareholdings.

Shareholders also have the right to put enquiries to the Board, all enquiries shall be in writing and sent by post to the registered office of the Company in Hong Kong at Room 1005, 10/F., C.C. Wu Building, 302-8 Hennessy Road, Wanchai, Hong Kong or by email to info@grandpeace.com.hk or by fax to (852) 2723 8108 for the attention of Company Secretary.

CORPORATE GOVERNANCE REPORT

3. Put Forward Proposals at Shareholders' Meetings

On the requisition in writing of either (i) any number of shareholder of the Company representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than 100 shareholders, the Company shall, at the expense of the requisitionists:

a) to give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;

b) to circulate to shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be signed by the requisitionists and deposited at the registered office of the Company in Hong Kong for the attention of the Company Secretary.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board communicates with the shareholders and investors through the annual general meetings and special general meetings. In compliance with the requirements of GEM Listing Rules, the Company releases regular reports, announcements, circulars, notice of general meetings and associated explanatory documents on the website of the Stock Exchange and the Company's website at www.grandpeace.com.hk. Shareholders and investors can get the latest information of the Company through these publications of the Company.

CONSTITIONAL DOCUMENTS

A copy of the Bye-laws has been published on the website of the Company and the website of the Stock Exchange. There has been no significant changes in the Company's constitutional documents during the year.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has established and maintained procedures and internal controls for the handling and dissemination of inside information. Directors, senior management and employees of the Group who are likely to be in possession of inside information of the Company are subject to dealing restrictions in securities of the Company pursuant to the GEM Listing Rules. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the GEM Listing Rules will be announced on the respective websites of the Stock Exchange and the Company.

INDEPENDENT AUDITORS' REPORT

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

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

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF GRAND PEACE GROUP HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Grand Peace Group holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 119, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong financial Reporting standards ("HKFRSs") issued by the Hong Kong institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment review of intangible assets	
Refer to note 17 to the consolidated financial statements and the accounting policies in note 3 to the consolidated financial statements.	
The carrying values of intangible assets was approximately HK$62,913,000 as at 31 December 2018, with impairment loss of approximately HK$11,576,000 for the year ended 31 December 2018 recognised in the consolidated statement of profit or loss and other comprehensive income. The Company engaged an independent valuer ("Group's Valuer") in assisting the management to determine recoverable amount (based on valuation in use valuation model) of the intangible assets as at 31 December 2018. In determine the recoverable amount, following assumptions were involved: – expected revenue and net profit; and – discount rate. The intangible assets was significant to the Group. Management's assessment of the recoverable amount involve significant judgements and estimates towards future result of operation related to intangible assets.	Our procedures in relation to the impairment assessment of intangible assets included: • discussing with the management of the Company and the Group's Valuer the valuation methodology, bases and assumptions used in determining the recoverable amount of intangible assets;; • checking the objectivity, competence and capability of the Group's Valuer; • comparing the assumption used by the Company and information obtained by us; • recalculating the recoverable amount base on management valuation methodologies and assumptions; and • engaging an external valuation specialist to assist us in evaluating the reasonableness and appropriateness of the valuation performed by the Group's Valuer. We found the carrying values of the intangible assets supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment review of loan receivables	
Refer to Note 23 to the consolidated financial statements and the accounting policies in Note 3 to the consolidated financial statements.	
As at 31 December 2018, the Group's gross amount of loan receivables amounted to HK$159,683,000, and a provision for impairment of loan receivables of HK$4,372,000 was recognised in the Group's consolidated statements of financial position. Recoverability of loan receivables was significant to the Group's operation. The balance of provision for impairment of loan receivables represents the management's best estimates at the end of reporting period of expected credit losses under Hong Kong Financial Reporting Standard 9: Financial Instruments expected credit losses models. Management assesses whether the credit risk of loan receivables have increased significantly since their initial recognition, and apply impairment model to calculate their expected credit losses. The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following: Selection of appropriate model and determination of relevant key measurement parameters, including probability of default, loss given default and exposure at default; – Criteria for determining whether or not there was a significant increase in credit risk or a default; and – Economic indicator for forward-looking measurement, and the application of economic scenarios and weightings. We focus on this area due to the magnitude of the loan receivables and the significant estimates and judgement involved in determining the expected credit impairment losses allowance on the loan receivables.	Our procedures in relation to the impairment assessment of loan receivables included: • understood and tested the key control procedures performed by management, including its procedures on periodic review on overdue receivables and the assessment of expected credit losses allowance on the loan receivables; • understood and evaluated the modelling methodologies for expected credit losses measurement, assessed the reasonableness of the model selection and key measurement parameters determination; • for the historical information, discussed with management to understand the management's identification of significant increase in credit risk, defaults and credit-impaired loans, corroborated management's explanation with supporting evidence; • for forward-looking measurement, we assessed the reasonableness of economic indicator selection, economic scenarios and weightings application, assessed the reasonableness of the estimation by comparing with industry data; and • checked major data inputs used in the expected credit losses models on sample basis to the Group's record. We found the carrying values of the loan receivables supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 90 of Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

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

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Ng Ka Wah.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Ng Ka Wah
Practicing Certificate Number: P06417

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Turnover	7	91,162	113,580
Costs of sales		(49,661)	(67,525)
Gross profit		41,501	46,055
Other revenue	7	361	3,944
Other (loss)/gain, net	8	(67)	39
Fair value change of financial assets at fair value through profit or loss	9	(648)	(4,454)
Impairment loss of intangible assets	17	(11,576)	(5,829)
Net impairment losses on financial assets measured at amortised cost	9	(9,580)	(96)
Impairment loss of amount from a joint venture		(8,800)	–
Loss on disposal of an associate		–	(376)
Selling and distribution costs		(6,864)	(5,867)
Administrative expenses		(41,460)	(44,760)
Loss from operations		(37,133)	(11,344)
Finance costs	10	(37,969)	(30,965)
Share of result of associates		–	339
Share of result of a joint venture		(1,160)	(1,120)
Loss before taxation		(76,262)	(43,090)
Taxation	13	–	(4,029)
Loss for the year	9	(76,262)	(47,119)
Other comprehensive (loss)/income for the year, net of tax			
Item that will not be reclassified to profit or loss:			
Fair value change of financial assets at fair value through other comprehensive income	21	736	–
Item that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Net gain arising on revaluation of available-for-sale financial assets		–	43
Exchange differences:			
Exchange differences on translating of financial statements of foreign operations		(3,428)	5,491

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Share of other comprehensive (loss)/income of a joint venture		(1,107)	1,570
Total other comprehensive (loss)/income for the year, net of tax		(3,799)	7,104
Total comprehensive loss for the year		(80,061)	(40,015)
(Loss)/income for the year attributable to:			
Owners of the Company		(76,262)	(67,736)
Non-controlling interests		–	20,617
		(76,262)	(47,119)
Total comprehensive (loss)/income of the year attributable to:			
Owners of the Company		(80,061)	(60,632)
Non-controlling interests		–	20,617
		(80,061)	(40,015)
Loss per share			
Basic and diluted (HK cents per share)	15	(8.26)	(7.34)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current Assets			
Property, plant and equipment	16	51,741	45,547
Intangible assets	17	62,913	77,494
Goodwill	18	–	3,592
Interests in a joint venture	19(a)	21,701	23,817
Available-for-sale financial assets	20	–	98
Financial assets at fair value through other comprehensive income	21	3,934	–
Long-term prepayment	22	74,750	113,750
Loan receivables	23	–	2,815
		215,039	267,113
Current Assets			
Inventories	24	10,052	10,525
Trade receivables	25	–	747
Loan receivables	23	155,311	121,022
Promissory note receivable	26	–	3,500
Financial assets at fair value through profit or loss	27	1,392	2,040
Prepayments, deposits and other receivables	28	168,054	197,326
Cash and bank balances	29	3,082	31,777
		337,891	366,937
Current Liabilities			
Trade payables	30	28	323
Borrowings	31	178,959	157,867
Other payables and accruals	32	19,903	20,082
Receipts in advance		–	4
Tax payable		2,192	5,082
		201,082	183,358
Net current assets		136,809	183,579
Total assets less current liabilities		351,848	450,692

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current liability			
Borrowings	31	32,689	33,313
Net assets		319,159	417,379
Capital and reserves			
Share capital	33	461,360	461,360
Reserves	35	(142,201)	(44,005)
Total equity attributable to owners of the Company		319,159	417,355
Non-controlling interests		–	24
Total equity		319,159	417,379

Approved by the Board of Directors on 29 March 2019 and signed on its behalf by:

Mr. Wong Wai Leung
Director

Mr. Sun, Miguel
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital HK$'000	Contributed surplus HK$'000 (Note 35 (i))	Accumulated losses HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Financial assets at fair value through other comprehensive income reserve HK$'000 (Note 35 (ii))	Exchange reserve HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	461,360	368,178	(342,035)	–	–	(9,516)	477,987	(20,695)	457,292
Loss for the year	–	–	(67,736)	–	–	–	(67,736)	20,617	(47,119)
Other comprehensive income for the year									
– Exchange differences arising during the year	–	–	–	–	–	5,491	5,491	–	5,491
– Share of other comprehensive income of a joint venture	–	–	–	–	–	1,570	1,570	–	1,570
– Net gain arising on revaluation of available-for-sale financial assets	–	–	–	43	–	–	43	–	43
Total comprehensive (loss)/income for the year	–	–	(67,736)	43	–	7,061	(60,632)	20,617	(40,015)
Acquisition of a subsidiary (Note 42)	–	–	–	–	–	–	–	102	102
At 31 December 2017 as originally presented	461,360	368,178	(409,771)	43	–	(2,455)	417,355	24	417,379
Change in accounting policy	–	–	(18,135)	(43)	43	–	(18,135)	–	(18,135)
At 1 January 2018 as restated	461,360	368,178	(427,906)	–	43	(2,455)	399,220	24	399,244
Loss for the year	–	–	(76,262)	–	–	–	(76,262)	–	(76,262)
Other comprehensive income for the year									
– Exchange differences arising during the year	–	–	–	–	–	(3,428)	(3,428)	–	(3,428)
– Share of other comprehensive income of a joint venture	–	–	–	–	–	(1,107)	(1,107)	–	(1,107)
–Fair value change of financial assets at fair value through other comprehensive income	–	–	–	–	736	–	736	–	736
Total comprehensive (loss)/income for the year	–	–	(76,262)	–	736	(4,535)	(80,061)	–	(80,061)
Disposal of a subsidiary (Note 43)	–	–	–	–	–	–	–	(24)	(24)
At 31 December 2018	461,360	368,178	(504,168)	–	779	(6,990)	319,159	–	319,159

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Loss before taxation		(76,262)	(43,090)
Adjustments for:			
Bank interest income	7	(359)	–
Share of result of associates	19(b)	–	(339)
Share of result of a joint venture	19(a)	1,160	1,120
Depreciation of property, plant and equipment	9,16	3,922	2,612
Loss on disposal of an associate	19(b)	–	376
Loss/(gain) on disposal of a subsidiary	8,43	220	(12)
Net impairment losses on financial assets measured at amortised cost	9	9,580	96
Amortisation of long-term prepayments	22	39,000	39,000
Impairment loss of intangible assets	9,17	11,576	5,829
Net loss on financial assets at fair value through profit or loss	9	648	4,454
Impairment loss of amount due from a joint venture	28	8,800	–
Finance costs	10	37,969	30,965
Operating cash flow before working capital changes		36,254	41,011
Decrease in inventories		–	387
Decrease/(increase) in trade receivables		687	(717)
Increase in loan receivables		(32,750)	(38,444)
Increase in prepayments, deposits and other receivables		(4,737)	(23,814)
Decrease in trade payables		(295)	(12)
Increase/(decrease) in other payables and accruals		247	(1,272)
Decrease in financial assets at fair value through profit or loss		–	3,117
Decrease/(increase) in promissory note receivable		2,230	(8,000)
Decrease in receipts in advance		(4)	(626)
Cash generated from/(used in) operations		1,632	(28,370)
Profits tax paid		(2,885)	–
Net cash outflow from operating activities		(1,253)	(28,370)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from investing activities			
Interest received		359	–
Investment in a joint venture		(151)	(900)
Purchase of property, plant and equipment		(10,543)	(20)
Acquisition of financial assets at fair value through other comprehensive income		(3,100)	–
Decrease in pledged bank deposits		–	14,716
Proceeds from disposal of an associate		–	3,000
Net cash outflow from acquisition of a subsidiary	42	–	(3,898)
Net cash inflow from disposal of a subsidiary	43	3,845	12
Net cash (outflow)/inflow from investing activities		(9,590)	12,910
Cash flows from financial activities			
Interest paid	44	(15,054)	(13,469)
Proceeds form issue of bonds	44	161,753	132,905
Repayment of bonds	44	(164,200)	(127,750)
Net cash outflow from financing activities		(17,501)	(8,314)
Net decrease in cash and cash equivalents		(28,344)	(23,774)
Cash and cash equivalents at the beginning of the year		31,777	55,089
Effects of exchange rate changes on the balance of cash held in foreign currencies		(351)	462
Cash and cash equivalents at the end of the year		3,082	31,777
Analysis of balance of cash and cash equivalents			
Cash and bank balances	29	3,082	31,777

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. CORPORATE INFORMATION

Grand Peace Group Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office and the principal place of business of the Company are disclosed in "Corporate Information" section of this annual report. The principal activity of the Company is investment holding. During the year, the principal activities of the subsidiaries are provision of funeral services, sale of funeral related products and loan financing business. In the opinion of the directors of the Company (the "Directors"), the Company does not have any immediate holding company or ultimate holding company.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$") which is the same as the functional currency of the Company. All values are rounded to the nearest thousand (HK$'000), unless otherwise stated.

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

The accounting policies adopted in the consolidated financial statements for the year ended 31 December 2018 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017 except as described below.

In the current period, the Group has applied for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial period beginning on 1 January 2018.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

(a) Impact on the consolidated financial statements

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

Consolidated statement of financial position (extract)	**At 31 December 2017** HK$'000	**Impact on initial application of HKFRS 9** HK$'000	**At 1 January 2018** HK$'000
Non-current assets			
Available-for-sale financial assets	98	(98)	–
Financial assets at fair value through other comprehensive income	–	98	98
Current assets			
Prepayments, deposits and other receivables	197,326	(11,253)	186,073
Loan receivables	121,022	(6,882)	114,140
Net current assets	183,579	(18,135)	165,444
Total assets less current liabilities	450,692	(18,135)	432,557
Net assets	417,379	(18,135)	399,244
Capital and reserves			
Reserves	(44,005)	(18,135)	(62,140)
Total equity	417,379	(18,135)	399,244

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(b) HKFRS 9 Financial instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

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

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

(i) *Classification and measurement*

	HKAS 39 carrying amounts at 31 December 2017	**Reclassification**	**HKFRS 9 carrying amounts at 1 January 2018**
	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL			
Listed securities classified as held for trading (note a)	2,040	–	2,040
Financial assets at FVTOCI			
Listed equity securities (note b)	–	98	98
Financial assets classified as AFS financial assets under HKAS 39			
Listed equity securities (note b)	98	(98)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(b) HKFRS 9 Financial instruments *(Continued)*

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

(i) Classification and measurement (Continued)

(a) Financial assets at FVTPL and/or designated at FVTPL

The Group has reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK$2,040,000 of the Group's investments were held for trading and continued to be measured at FVTPL.

(b) Available-for-sale ("AFS") financial assets

From AFS financial assets to financial assets at fair value through other comprehensive income ("FVTOCI"). The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as AFS financial assets. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$98,000 were reclassified from AFS financial assets to financial assets at FVTOCI.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– FVOCI -recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortise cost or FVOCI (recycling). Changes in the fair value of the investment (including) interest are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(b) HKFRS 9 Financial instruments *(Continued)*

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

(i) Classification and measurement (Continued)

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including deposits and other receivables, loan receivables, time deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition, except for certain deposits and other receivables and loan receivables which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(b) HKFRS 9 Financial instruments *(Continued)*

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

(ii) Impairment under ECL model (Continued)

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

	Deposits and other receivables HK$'000	**Loan receivables** HK$'000	**Total** HK$'000
At 31 December 2017 – HKAS39	–	96	96
Amounts re-measured through opening accumulated losses	11,253	6,882	18,135
At 1 January 2018 – HKFRS9	11,253	6,978	18,231

The reserve movement as at 31 December 2017 reconciled to the opening balances as at 1 January 2018 are as follows:

	AFS financial assets revaluation reserve HK$'000	**FVOCI reserve** HK$'000	**Accumulated losses** HK$'000
Balance as at 31 December 2017	43	–	(409,771)
Reclassification:			
– AFS financial assets to FVTOCI	(43)	43	–
Remeasurement:			
Increase in provision for			
– deposit and other receivables	–	–	(11,253)
– loan receivables	–	–	(6,882)
At 1 January 2018, as restated	–	43	(427,906)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(c) HKFRS 15 Revenue from Contracts with Customers

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

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

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

- Revenue from sale of goods

  The Group sells funeral related products. Sales are recognised when control of the products has transferred, being when the products are delivered and the customers have inspected and accepted the products.

- Service income

  The Group engaged in provision of funeral services. Revenue from providing funeral services is recognised in the accounting period in which the services are rendered.

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

HKFRS 15 was generally adopted without restating any other comparative information. There is no impact of transition to HKFRS 15 on accumulated losses at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[3]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[1]
HKFRS (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HKFRS 3 (Amendments)	Definition of a business[2]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1st January 2019.
2 Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January 2020.
3 Effective for annual periods beginning on or after 1st January 2020.
4 Effective for annual periods beginning on or after 1st January 2021.
5 Effective for annual periods beginning on or after a date to be determined.

The above new HKFRSs are effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing these consolidated financial statements. None of these is excepted to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

Furthermore, extensive disclosures are required by HKFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

HKFRS 16 Leases *(Continued)*

At 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$592,000 as disclosed in Note 36 to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

Except disclosed above, the Directors do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's financial performance and financial positions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the applicable disclosure required by the Hong Kong Companies Ordinance and the applicable disclosure provisions of The Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

Basis of preparation

The consolidated financial statements has been prepared under the historical cost convention excepted for certain financial instruments that are measured at revalued amounts or fair values 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 share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation *(Continued)*

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company:

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

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Subsidiaries

A subsidiary in an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 or when the investment is designated as at fair value through profit or loss upon initial recognition.

Under equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes and long term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinued recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in joint ventures

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

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives or estimated unit of production. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful life carried at cost less accumulated impairment loss.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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 with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where 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. Where 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 cash-generating units 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Recoverable amount is the higher of fair value less costs to sell 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a 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 a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. An assessment is made at each reporting date as to whether there is any indication that 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related party transactions

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

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

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

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the reporting entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related party transactions *(Continued)*

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

(i) 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).

(ii) 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).

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

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

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

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

(vii) A person identified in (a)(i) 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);and

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Property, plant and equipment and depreciation

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

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

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

Leasehold improvements	Over the lease terms
Motor vehicles	18%
Furniture and fixtures	20%
Office and computer equipment	20-30%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

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

Leases

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

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1st January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets 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 at fair value through profit or loss are recognised immediately in profit or loss.

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

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

Amortised cost and interest income

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

Financial assets at FVTPL

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

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

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

Significant increase in credit risk

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

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

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

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

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

Definition of default

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

Credit-impaired financial assets

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

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

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

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

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

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

Write-off policy

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

Measurement and recognition of ECL

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

Measurement and recognition of ECL *(Continued)*

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial asset FVTPL, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognised on a trade date basis. Regular way purchase 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in the consolidated income statements excludes any dividend or interest earned on the financial assets and is included in the other revenue line item. Fair value is determined in the manner described in note 5 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables or financial assets at FVTPL.

AFS debt security that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

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

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re- organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30-90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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. Changes in the carrying amount of the allowance account are recognised in the consolidated income statements. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the 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.

In respect of AFS debt security, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as financial liabilities or equity

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

Equity instruments

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest 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.

Financial liabilities

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

Financial liabilities at amortised cost

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Derivative financial instruments

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

Derecognition

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and pledged bank deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial positions, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions and contingent liabilities

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

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

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

Income tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” 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 liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year is 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.

Revenue recognition (accounting policies applied from 1 January 2018)

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (accounting policies applied from 1 January 2018) *(Continued)*

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

- Revenue from sale of goods

  The Group sells funeral related products. Sales are recognised when control of the products has transferred, being when the products are delivered and the customers have inspected and accepted the products.

- Service income

  The Group engaged in provision of funeral services. Revenue from providing funeral services is recognised in the accounting period in which the services are rendered.

- Interest income

  The Group is also engaged in money lending business. Interest income is recognised and accrued using the effective interest method.

Revenue recognition (accounting policies applied before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when services are provided; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pension schemes

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

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. At the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their statement of comprehensive incomes are translated into Hong Kong dollars at the weighted average exchange rates for the year. Exchange differences arising are recognised in the exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

Borrowing costs are recognised as expenses in the statement of comprehensive income in the period in which they are incurred.

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Estimates and judgments 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 financial year are discussed below.

(a) Income tax

The Group is subject to income taxes in Hong Kong and the People's Republic of China (the "PRC"). Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Impairment of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value in use calculations which require the use of assumptions and estimates.

(c) Impairment of intangible assets and goodwill

The Group tests annually whether intangible assets and goodwill have suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of intangible assets have been determined based on discounted cash flow method (Note 17 and Note 18).

The carrying amount of intangible assets as at 31 December 2018 was approximately HK$62,913,000 (2017: HK$77,494,000) and no goodwill as at 31 December 2018 (2017: HK$3,592,000).

(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 selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significant as a result of change in market condition. Management reassess the estimations at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

(e) Provision of ECL for deposits and other receivables and loan receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's financial assets are disclosed in notes 5.

(f) Fair value of unlisted equity securities

The fair value of the unlisted equity securities that are not traded in an active market, including financial asset at FVTOCI, is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each of the balance sheet date. The Group has used discounted cash flow analysis for the unlisted equity securities that are not traded in active market.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Measured at amortised costs	286,202	–
Loans and receivables (including cash and cash equivalents)	–	314,173
Financial assets at fair value through profit or loss	1,392	2,040
Available-for-sale financial assets	–	98
Financial assets at fair value through other comprehensive income	3,934	–
	291,528	316,311
Financial liabilities		
Measured at amortised cost	231,579	211,585

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Market risk exposures are measured by sensitivity analysis.

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

Interest rate risk management

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group considers that there is no significant cash flow interest rate risk as the Group does not have any significant interest-bearing liabilities at floating rate.

The Group's exposures to interest rates on financial liabilities are detailed in liquidity risk management section of this note.

Foreign currency risk management

The Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the respective subsidiaries. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The credit risk of the Group mainly arises from trade receivables loan receivables, bank deposits and deposits and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Credit risk *(Continued)*

As at 31 December 2018, loan receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to provision of funeral services, sale of funeral related products and loan interest income. The Group's loan receivables arise from money lending business. As at the end of the year, the top five debtors and the largest debtor accounted for approximately 11% and 9% (2017: 11% and 10%), of the Group's loan receivables balance.

Impairment of financial assets

The Group applies the expected credit loss model to financial assets measured at amortised cost, including trade debtors, loan receivables, deposits and other receivables and cash and cash equivalent. Impairment on loan receivables and deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available, reasonable and supportive forwarding-looking information.

Trade debtors, loan receivables and deposits and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments, and the failure of a debtor to engage in a repayment plan with the Group.

While cash and bank balance are also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.

Loan receivables

The Group estimates the ECL under HKFRS 9 ECL models. The Group assesses whether the credit risk of loan receivables have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL, the management assesses impairment loss using the risk parameter modelling approach that incorporates key measurement parameters, including probability of default, loss given default and exposure at default, with the consideration of forward-looking information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Impairment of financial assets *(Continued)*

Loan receivables (Continued)

Loan receivables are categorised into the following stages by the Group:

Stage 1
Loan receivables have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months ECL (12-month ECLs).

Stage 2
Loan receivables to customers have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime ECL (Lifetime ECLs non credit-impaired).

Stage 3
Loan receivables that are in default and considered credit impaired (Lifetime ECLs credit impaired).

In assessing whether the credit risk of loan receivables has increased significantly since initial recognition, the Group compares the risk of default occurring on the loan receivables assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is past due for more than 90 days. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

– an actual or expected significant deterioration in a loan receivables's external or internal credit rating (if available);

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group; and

– the financial asset is past due.

As at 31 December 2018, the provision for impairment of loan receivables was HK$4,372,000 based on expected loss rates up to 100% applied to different stages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Impairment of financial assets *(Continued)*

Loan receivables (Continued)

The analysis of changes in the gross carrying amount and the corresponding provision for impairment of loan receivables in relation to loan receivables are as follows:

	As at 31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Loan receivables, gross	146,820	372	12,491	159,683
Less: Provision for impairment of loan receivables	(1,114)	(28)	(3,230)	(4,372)
Loan receivables, net	145,706	344	9,261	155,311

Movements for provision for impairment of loan receivables are as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
At 31 December 2017 – HKAS 39	–	–	96	96
Adoption of HKFRS 9 – Remeasurement	391	1,272	5,219	6,882
As 1 January 2018	391	1,272	5,315	6,978
Addition/(reversal)	723	(1,244)	(2,085)	(2,606)
As at 31 December 2018	1,114	28	3,230	4,372

Deposits and other receivables

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

The movement of loss allowances for deposits and other receivables during the year is as follows:

	2018
	HK$'000
As at 1 January	11,253
Impairment loss recognised	12,186
As at 31 December	23,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Impairment of financial assets *(Continued)*

Deposits and other receivables (Continued)

Other financial assets measured at amortised cost

Other financial assets at amortised cost, including cash and bank balances are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition. The Group deposits cash and cash equivalents into banks with relatively high level of credit rating, therefore, credit risk of cash and cash equivalents is low.

Previous accounting policy for impairment of financial asset

In the prior year, the impairment of financial assets was assessed based on the incurred loss model. The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Liquidity risk

The Group's liquidity risk management includes diversifying the funding sources. Internally generated cash flow and issuance of shares are the general source of funds to finance the operation of the Group. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Within 1 year	Over 1 years	Total undiscounted cashflow	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
2018					
Non-derivative Financial liabilities					
Trade payables	–	28	–	28	28
Other payables and accruals	–	19,903	–	19,903	19,903
Borrowings	17	188,638	49,310	237,948	211,648
		208,569	49,310	257,879	231,579
2017					
Non-derivative Financial liabilities					
Trade payables	–	323	–	323	323
Other payables and accruals	–	20,082	–	20,082	20,082
Borrowings	19	175,006	51,809	226,815	191,180
		195,411	51,809	247,220	211,585

Fair value of financial instruments

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

(i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively.

(ii) the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(iii) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Fair value of financial instruments *(Continued)*

Some of the Group's financial asset are measured at fair value at the end of each reporting period. The following table give information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	31 December 2018 HK$'000	31 December 2017 HK$'000		
Financial assets				
Available-for-sale financial assets	**–**	98	Level 1	Quoted bid prices on active market
Financial assets at fair value through other comprehensive income				
– Listed equity securities	**780**	–	Level 1	Quoted bid prices on active market
– Unlisted equity securities	**3,154**	–	Level 3	Discount cash flow analysis
Financial assets at fair value through profit or loss	**1,392**	2,040	Level 1	Quoted bid prices on active market

The fair value of the financial assets included in the level 1 above have been determined in accordance with the quoted prices in active market.

There are no transfers between Level 1, 2 and 3 in both years.

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on recurring basis

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximately their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

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

Fair value measurements using significant unobservable inputs (level 3)

Specific valuation techniques used to value level 3 financial instruments include techniques such as discounted cash flow analysis. There are no changes in valuation techniques during the year (2017: nil).

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2018:

	Unlisted equity securities HK$'000
Addition	3,100
Fair value change of financial assets at fair value through other comprehensive income	54
Balance as at 31 December 2018	3,154

The key unobservable assumptions used in the valuation of the unlisted equity securities are:

Valuation techniques	**Unobservable inputs**	**As at 31 December 2018**	**As at 31 December 2017**
Discounted cash flow	Discount rate	18.4%	N/A
Analysis	Terminal growth rate	3.0%	N/A

As at 31 December 2018, the discount rate used to compute the fair value is 18.4%. If the discount rate shifted upward by 1%, the impact on the consolidated statements of profit and loss and other comprehensive income would be HK$280,000 lower. The higher the discount rate, the lower the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(Continued)*

(c) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt (which includes borrowings) and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

Gearing ratio

The Directors review the capital structure regularly. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. During the year ended 31 December 2018, the Group's strategy, which was unchanged from previous years, was to reduce the gearing ratio. This ratio is calculated based on total debt and owners' equity.

	2018 HK$'000	2017 HK$'000
Debts#	211,648	191,180
Shareholders equity	319,159	417,355
Gearing ratio	66.31%	45.81%

\# Total debts comprise borrowings as detailed in Note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION

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

The total net segment income is equivalent to total comprehensive income for the year as shown in the consolidated statement of profit or loss and other comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and cash and bank balances.

Segment liabilities comprise operating liabilities.

Unallocated items mainly comprise financial and corporate assets and liabilities and tax balances.

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

- Provision of funeral services and sale of funeral related products
- Loan financing business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results

An analysis of the Group's revenue and results and certain assets, liabilities and expenditure information for the Group's reportable segments is as follows:

	Provision of funeral services and sale of funeral related products		Loan financing business		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Segment revenue:						
Sale to external customers	**81,385**	97,740	**9,777**	15,840	**91,162**	113,580
Segment results	**6,372**	2,157	**10,012**	13,991	**16,384**	16,148
Impairment loss of intangible assets	**(11,576)**	(5,829)	**–**	–	**(11,576)**	(5,829)
Impairment loss of amount due from a joint venture					**(8,800)**	–
Unallocated gains					**361**	2,989
Loss on disposal of an associate					**–**	(376)
Fair value change of financial assets of fair value through profit or loss					**(648)**	(4,454)
Corporate and other unallocated expenses					**(32,854)**	(19,726)
Finance costs					**(37,969)**	(30,965)
Share of result of an associate					**–**	339
Share of result of a joint venture					**(1,160)**	(1,120)
Loss before taxation					**(76,262)**	(43,090)
Taxation					**–**	(4,029)
Loss for the year					**(76,262)**	(47,119)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

There were no inter-segment sales in the year (2017: Nil). Segment profit represents the profit earned by each segment without allocation of central administration costs including Directors' salaries, other revenue and gains, loss on disposal of an associate, net loss on financial assets at fair value through profit or loss, finance costs, share of result of associates and joint venture and income tax expense. This is the measure reported to chief operating decision makes for the purposes of resource allocation and assessment of segment performance.

	Provision of funeral services and sale of funeral related products		Loan financing business		Total	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Assets and liabilities						
Segment assets	328,040	335,673	161,142	133,284	489,182	468,957
Corporate and other unallocated assets					63,748	165,093
Total assets					552,930	634,050
Segment liabilities	10,326	12,508	69	2,875	10,395	15,383
Corporate and other unallocated liabilities					223,376	201,288
Total liabilities					233,771	216,671

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

- All asset are allocated to operating segments other than available-for-sale financial assets, interest in a joint venture, interests in associates, promissory note receivable, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, partial deposit and other receivables and other corporate assets.

- All liabilities are allocated to operating segments other than partial payables, accruals, borrowings, tax liabilities and other corporate liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

	Provision of funeral services and sale of funeral related products		Loan financing business		Unallocated		Total	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Other segment information								
Depreciation of property, plant and equipment	3,877	2,526	40	83	5	3	3,922	2,612
Capital expenditure*	10,515	–	–	20	28	–	10,543	20
Impairment loss of intangible assets	11,576	5,829	–	–	–	–	11,576	5,829
Net impairment losses measured at amortised cost	1,393	–	(2,606)	96	10,793	–	9,580	–

* Capital expenditure only include the additions to property, plants and equipment during the year.

(b) Geographical information

During the year, the Group's turnover was mainly made to customers located at Hong Kong and the PRC. The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below.

The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of intangible assets, it is based on the location of operations to which these intangibles are allocated. In the case of interests in associates and joint ventures, it is based on the location of operations of such associates and joint ventures.

	Provision of funeral services and sale of funeral related products		Loan financing business		Unallocated		Total	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Sales								
Hong Kong	81,385	97,174	9,777	15,840	–	–	91,162	113,014
The PRC	–	566	–	–	–	–	–	566
	81,385	97,740	9,777	15,840	–	–	91,162	113,580
Non-current assets								
Hong Kong	81,750	117,348	5,406	5,448	3,961	3	91,117	122,799
The PRC	102,221	117,585	–	–	21,701	32,617	123,922	150,202
	183,971	234,933	5,406	5,448	25,662	32,620	215,039	273,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. TURNOVER AND OTHER REVENUE

The Group's turnover represents the net invoiced value of funeral products sold, services provided for and loan interest received, after allowances for returns and trade discounts during the year.

An analysis of the Group's turnover and other revenue is as follows:

	2018 HK$'000	2017 HK$'000
Turnover:		
Revenue from contracts with customers:		
Recognised at a point in time		
Provision of funeral services and sale of funeral related products	81,385	97,740
Revenue from other sources:		
Loan interest income	9,777	15,840
	91,162	113,580

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

For the year ended 31 December 2018 and 2017, no single customer contributed 10% or more to the Group's revenue.

	2018 HK$'000	2017 HK$'000
Other revenue:		
Bank interest income	359	–
Interest income on promissory note receivable	–	2,989
Sundry income	2	955
	361	3,944

8. OTHER NET (LOSS)/GAIN, NET

	2018 HK$'000	2017 HK$'000
Reversal on written-off of loan receivables	153	6
Gain on disposal of a subsidiary (Note 43)	(220)	12
Gain on waiver of other payables	–	21
	(67)	39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. LOSS FOR THE YEAR

The Group's loss for the year is arrived at after charging:

	Note	2018 HK$'000	2017 HK$'000
Cost of inventories sold		–	510
Auditors' remuneration			
– Audit services		820	780
– Other service		78	12
Net impairment losses on financial assets measured at amortised cost:			
– Provision for impairment loss on other receivables	5	12,186	–
– (Reversal of)/provision for improvision loss on loan receivables	5	(2,606)	96
		9,580	96
Impairment loss of intangible assets	17	11,576	5,829
Depreciation on owned property, plant and equipment	16	3,922	2,612
Minimum lease payments under operating leases:			
Funeral Parlour		39,000	52,950
Land and buildings		1,578	1,947
		40,578	54,897
Employee benefits expense (excluding Directors' remuneration)			
Wages, salaries and other allowances		9,435	9,727
Pension scheme contributions		373	428
		9,808	10,155
Net loss on financial assets at fair value though profit or loss:			
Net unrealised loss on financial assets at fair value through profit or loss		648	1,078
Net realised loss on financial assets at fair value through profit or loss		–	3,376
		648	4,454

10. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on:		
Bank and other borrowings	37,969	30,890
Other interest expenses	–	75
Total finance costs	37,969	30,965

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and the Hong Kong Companies Ordinance (Cap. 622), is as follows:

	2018 HK$'000	2017 HK$'000
Fees	527	1,660
Other emoluments:		
Salaries, allowances and benefits in kind	4,393	10,195
Pension scheme contributions	62	30
	4,982	11,885

During the years ended 31 December 2018 and 2017, none of the Directors were granted share options under the share option scheme operated by the Company.

(a) Independent Non-executive Directors (continued)

The fees paid to Independent Non-executive Directors during the year were as follows:

	2018 HK$'000	2017 HK$'000
Liu Qing Chen (Note (i))	93	120
Tan Xiao Yan (Note (i))	93	120
Tam Yiu Cheung (Note (i))	45	120
Chin Kwan Lam, Raymond (Note (ii))	110	–
Huen Ho Yin (Note (ii))	110	–
Huang Hongbin (Note (iii))	76	–
	527	360

There were no other emoluments payable to the Independent Non-executive Directors during the year (2017: Nil).

Note:

(i) Mr. Liu Qing Chen, Mr. Tan Xiao Yan and Mr. Tam Yiu Cheung have not been re-elected on 9 May 2018.

(ii) Mr. Chin Kwan Lam, Raymond and Mr. Huen Ho Yin have been appointed on 1 June 2018.

(iii) Mr. Huang Hongbin has been appointed on 1 August 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive Directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000
2018				
Executive Directors:				
Li Ge (Note (ii))	–	496	5	501
Sun, Miguel	–	3,005	18	3,023
Cheng Wai Keung (Note (iii))	–	51	3	54
He Weiqing (Note (iv))	–	480	18	498
Wong Wai Leung (Note (v))	–	361	18	379
	–	4,393	62	4,455
2017				
Executive Directors:				
Li Ge (Note (ii))	1,300	7,309	–	8,609
Sun, Miguel	–	2,632	17	2,649
Cheng Wai Keung (Note (iii))	–	240	13	253
He Weiqing (Note (iv))	–	14	–	14
	1,300	10,195	30	11,525

Note:

(i) There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 31 December 2018 (2017: Nil).

No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2017: Nil).

(ii) Mr. Li Ge has resigned on 19 March 2018.

(iii) Mr. Cheng Wai Keung has resigned on 16 March 2018.

(iv) Mr. He Weiqing has been appointed as the Executive Director of the Company on 18 December 2017.

(v) Mr. Wong Wai Leung has been appointed as the Executive Director of the Company on 2 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2017: two) Directors, details of whose remuneration are set out in Note 11 above. Details of the remuneration of the remaining three (2017: three) non-Director, highest paid employees for the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	2,152	1,935
Pension scheme contributions	48	35
	2,200	1,970

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

	Number of employees	
	2018 HK$'000	2017 HK$'000
Nil to HK$1,000,000	3	3

During the year ended 31 December 2018, no share options have been granted to non-Director, highest paid employees in respect of their services to the Group (2017: Nil).

No emoluments have been paid by the Group to non-Director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil).

13. TAXATION

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

On 21 March 2018, the Legislative Council of the Hong Kong Special Administrative Region of the PRC passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of the corporations will be taxed at 8.25% and assessable profits above HK$2 million will be taxed at 16.5%.

No provision for Hong Kong Profits Tax has been made for both years as the Group has no assessable profits in Hong Kong.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years. No provision for PRC Enterprise Income Tax has been made for both years as the Group have no assessable profits arising in the PRC.

	2018 HK$'000	2017 HK$'000
Current taxation – Hong Kong		
– Charge for the year	–	4,029
Current taxation – PRC	–	–
Tax expenses for the year	–	4,029

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. TAXATION *(Continued)*

	2018 HK$'000	2018 %	2017 HK$'000	2017 %
Loss before taxation	**(76,262)**		(43,090)	
National tax on loss before taxation, calculated at the rates applicable to tax jurisdictions concerned	**(13,837)**	**(18.1)**	(7,308)	(16.9)
Tax effect of share result of associates	**–**	**–**	56	0.1
Tax effect of share result of a joint venture	**(191)**	**(0.3)**	(185)	(0.4)
Tax effect of other temporary difference no recognised	**–**	**–**	(4)	(–)
Tax effect of expenses not deductible for tax purpose	**9,852**	**12.9**	5,223	12.1
Tax effect of income not taxable for tax purpose	**(82)**	**(0.1)**	(93)	(0.2)
Tax loss not recognised	**4,258**	**5.6**	6,340	14.7
Tax expenses for the year	**–**	**–**	4,029	9.4

Deferred tax assets have not been recognised in respect of the following items:

	2018 HK$'000	2017 HK$'000
Tax losses	**14,058**	9,800

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

14. DIVIDENDS

No dividend has been declared or proposed by the Directors of the Company in respect of the year ended 31 December 2018 (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share amount is based on the loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

	2018 HK$'000	2017 HK$'000
Loss attributable to owners of the Company, used in the calculation of basic loss per share from operation	(76,262)	(67,736)

	HK$'000	HK$'000
Number of shares		
Weighted average number of ordinary shares in issue during the year	922,720	922,720

During the years ended 31 December 2018 and 2017, there was no potential dilutive shares issued by the Company. Therefore, the basic and diluted losses per share for the respective years are the same.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Office and computer equipment HK$'000	Total HK$'000
Cost:					
At 1 January 2017	51,406	440	329	1,670	53,845
Additions	–	–	8	12	20
Acquired on acquisition of a subsidiary (Note 42)	–	–	–	7	7
Derecognised on disposal of a subsidiary (Note 43)	(3,369)	(440)	(150)	(1,223)	(5,182)
Exchange alignment	624	–	–	–	624
At 31 December 2017 and 1 January 2018	48,661	–	187	466	49,314
Additions	10,515	–	–	28	10,543
Derecognised on disposal of a subsidiary (Note 43)	–	–	–	(7)	(7)
Exchange alignment	(459)	–	–	–	(459)
At 31 December 2018	**58,717**	**–**	**187**	**487**	**59,391**
Accumulated depreciation and impairment:					
At 1 January 2017	4,236	411	175	1,483	6,305
Charge for the year	2,395	29	28	160	2,612
Eliminated on disposal of a subsidiary (Note 43)	(3,369)	(440)	(150)	(1,223)	(5,182)
Exchange alignment	32	–	–	–	32
At 31 December 2017 and 1 January 2018	3,294	–	53	420	3,767
Charge for the year	3,876	–	22	24	3,922
Eliminated on disposal of a subsidiary (Note 43)	–	–	–	(2)	(2)
Exchange alignment	(37)	–	–	–	(37)
At 31 December 2018	**7,133**	**–**	**75**	**442**	**7,650**
Carrying amount:					
At 31 December 2018	**51,584**	**–**	**112**	**45**	**51,741**
At 31 December 2017	45,367	–	134	46	45,547

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INTANGIBLE ASSETS

	Funeral Parlour Licence and Undertaker's Licence HK$'000 (Note (i))	Sub-contracting Agreement HK$'000 (Note (ii))	Money Lender Licence HK$'000 (Note (iii))	Total HK$'000
Cost:				
At 1 January 2017	6,000	74,133	5,275	85,408
Derecognised on disposal of a subsidiary (Note 43)	(6,000)	–	–	(6,000)
Exchange alignment	–	5,053	–	5,053
At 31 December 2017 and 1 January 2018	–	79,186	5,275	84,461
Additions	–	–	–	–
Exchange alignment	–	(3,799)	–	(3,799)
At 31 December 2018	**–**	**75,387**	**5,275**	**80,662**
Accumulated amortisation and impairment:				
At 1 January 2017	6,000	978	–	6,978
Derecognised on disposal of a subsidiary (Note 43)	(6,000)	–	–	(6,000)
Impairment loss recognised	–	5,829	–	5,829
Exchange alignment	–	160	–	160
At 31 December 2017 and 1 January 2018	–	6,967	–	6,967
Impairment loss recognised	–	11,576	–	11,576
Exchange alignment	–	(794)	–	(794)
At 31 December 2018	**–**	**17,749**	**–**	**17,749**
Carrying amount:				
At 31 December 2018	**–**	**57,638**	**5,275**	**62,913**
At 31 December 2017	–	72,219	5,275	77,494

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INTANGIBLE ASSETS *(Continued)*

Notes:

(i) The Funeral Parlour Licence and the Undertaker's Licence represent the rights granted to the Group by the Food and Environmental Hygiene Department of Hong Kong for carrying on the business of a funeral parlour and an undertaker of burials for an indefinite period of time. Such intangible asset is carried at cost less accumulated impairment losses. The recoverable amount of the intangible asset has been determined based on a value in use calculation.

(ii) On 15 December 2011, an indirect wholly-owned subsidiary of the Company, EMAX Venture Limited (the "Purchaser") entered into the sale and purchase agreement with Mr. Lau Chi Yan, Pierre (the "Vendor") pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the entire issued share capital and the amount of shareholder's loan of Profit Value Group Limited (the "Target") to the Vendor at the date of completion at a total consideration of HK$80,000,000 in cash (the "consideration") (collectively refer as the "Acquisition"). The acquisition was completed on 10 April 2013. The Sub-contracting Agreement represents the agreement entered into between 明德堂貿易(深圳)有限公司 (transliterated as "Ming De Tang Rrading (Shenzhen) Limited Company"), an wholly-owned subsidiary of the Target incorporated in the PRC, and 惠東縣華僑墓園管理公司 (transliterated as "Huidong County Huaqiao Cemetery Management Company") pursuant to which Ming De Tang Trading (Shenzhen) Limited Company is the sole subcontractor of the Huidong County Huaqiao Cemetery Management Company responsible for the provision of all funeral-related services and products, and assistance necessary for the operation of a licensed commercial cemetery located at Huidong County, Huizhou City, Guangdong Province to the Huidong County Huaqiao Cemetery Management Company. The agreement has a 30 years term from 1 December 2011 to 30 November 2041. The sub-Contracting Agreement amortised over its estimated unit of production.

Based on the estimation of the Directors, an impairment loss of approximately HK$11,576,000 (2017: HK$5,829,000) in respect of the sub- contracting Agreement was recognised during the year ended 31 December 2018, in which the recoverable amount was determined based on a value-in-use calculation. The calculation uses cash flow projections based on financial budgets approved by the management covering a 24-year-period (2017: 25-year period). The discount rate applied was approximately 20.19% (2017: 19.75%).

(iii) The Money Lender License represents the right granted to the Group for carrying on the business of a Money Lender for an indefinite period of time. Such intangible assets is carried at cost less accumulated impairment losses. The recoverable amount of the intangible asset has been determined based on a value in use calculation. No impairment loss was recognised during the year (2017: Nil) in which, the recoverable amount was determined on discounted cash flow method. The calculation uses cash flow projections based on financial budgets approved by the management covering 5 years (2017: 5 years). The discount rate applied was approximately 10.97% (2017: 10.48%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. GOODWILL

	Total
	HK$'000
Cost:	
At 1 January 2017	–
Acquired on acquisition of a subsidiary	3,592
At 31 December 2017 and 1 January 2018	3,592
Disposal of a subsidiary (Note 43)	(3,592)
At 31 December 2018	–
Accumulated impairment:	
At 1 January 2017, 1 January 2018 and 31 December 2018	–
Carrying amount:	
At 31 December 2018	–
At 31 December 2017	3,592

Impairment testing of goodwill

For the year ended 31 December 2017

Goodwill acquired through business combination is allocated to the papercrafts offerings cash-generating unit ("CGU") for impairment testing.

The recoverable amount of the papercrafts offerings CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.57% and cash flows of the papercrafts offerings unit beyond the five-year period were extrapolated using a growth rate of 3%, which was the same as the long-term average growth rate of the papercrafts offerings industry.

19. INTERESTS IN A JOINT VENTURE

(a) Interests in a joint venture

	2018	2017
	HK$'000	HK$'000
Cost of investment in joint venture, unlisted:	**29,718**	29,567
Share of post-acquisition loss and other comprehensive loss, net of dividends received	**(8,017)**	(5,750)
	21,701	23,817

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. INTERESTS IN A JOINT VENTURE *(Continued)*

(a) Interests in a joint venture *(Continued)*

Name of Joint Venture	Place of incorporation and kind of legal entity	Issued and paid-up/ registered share capital	Percentage of equity attributable to the Group 2018	Percentage of equity attributable to the Group 2017	Percentage of voting power held 2018	Percentage of voting power held 2017	Principal activities and place of operation
惠州市福澤頤養服務有限公司(「福澤頤養」)	the PRC, non-wholly owned foreign company	HK$9,566,000	**65%**	65%	**65%**	65%	Inactive, the PRC

福澤頤養 formed by the Group and an independent third party shareholder on 12 May 2014. The Group holds 65% of the issued share capital and can appoint 2 out of 3 directors of 福澤頤養. However, under memorandum and articles of association, the board's decisions of 福澤頤養 need to be approved by 75% of the board of directors of 福澤頤養. The Directors of the Company consider the setting of memorandum and article is contractually agreed sharing of control over 福澤頤養, decisions about the relevant activities of 福澤頤養 require the unanimous consent of the other party and classified the investment in 福澤頤養 as a joint venture.

	2018 HK$'000	2017 HK$'000
Current assets	**5,316**	5,464
Non-current assets	**37,683**	40,351
Current liabilities	**(9,613)**	(9,173)
Net assets	**33,386**	36,642
The above amounts of assets and liabilities including the following:		
Cash and cash equivalents	**44**	5

	2018 HK$'000	2017 HK$'000
Loss for the year	**(1,784)**	(1,723)
Other comprehensive (loss)/income for the year	**(1,703)**	2,416
Total comprehensive (loss)/income for the year	**(3,487)**	693

The comprehensive loss for the year include the following:

	2018 HK$'000	2017 HK$'000
Amortisation of prepayments	**1,001**	975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. INTERESTS IN A JOINT VENTURE *(Continued)*

(a) Interest in a joint venture *(Continued)*

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

	2018 **HK$'000**	2017 HK$'000
Net assets of joint venture	**33,386**	36,642
Proportion of the Group's ownership interest in a joint venture	**65%**	65%
Carrying amount of the Group's interests in a joint venture	**21,701**	23,817

(b) Interests in an associates

Details of the Group's interests in an associates are follows:

	2017 HK$'000
Cost of investment in an associates, unlisted	25,000
Share of post-acquisition profit and other comprehensive income, net of dividends received	376
Disposal	(25,376)
	-

Impairment assessment of interests in an associate:

For the year ended 31 December 2017

The Directors consider there was no indication of impairment in respect of the interests in an associate, no impairment loss will be charged against the carrying amount of interests in an associate for the year ended 31 December 2017.

Name of associates	**Place of Incorporation and kind of legal entity**	**Issued and paid-up/ registered share capital**	**Percentage of equity attributable to the Group** 2017	**Principal Percentage of voting power held** 2017	**activities and place of operation**
Yat Ho Group Limited (Note (i))	Hong Kong, limited liability company	HK$10,000	–	–	Provision of catering services, Hong Kong

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. INTERESTS IN A JOINT VENTURE *(Continued)*

(b) Interests in an associates *(Continued)*

Note:

(i) Yat Ho Group Limited was acquired by the Group on 30 September 2016. It primary engaged in provision of catering services in Hong Kong. On 24 March 2017, the Group disposed all of the equity interest in Yat Ho Group Limited at consideration of HK$25,000,000, resulting in a loss of approximately HK$376,000. The disposal of Yat Ho Group Limited was completed on 24 March 2017. Upon completion of the disposal, Yat Ho Group ceased to be classified as an associate.

The associate is accounted for using the equity method in these consolidated financial statements.

	2017 HK$'000
Current assets	–
Non-current assets	–
Current liabilities	–
Net liabilities	–

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	–

	For the period from 1/1/2017 to 24/3/2017 HK$'000
Turnover	2,683
Profit for the period	753
Total comprehensive income for the period	753

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Equity securities at fair value:		
Listed outside Hong Kong (Note (a))	**–**	98

Note:

(a) Available-for-sale financial assets were reclassified to financial assets at FVTOCI upon the initial application of HKFRS 9 at 1 January 2018 (Note 21).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 HK$'000	2017 HK$'000
Listed equity securities (note (a))	780	–
Unlisted equity securities (note (b))	3,154	–
	3,934	–

Note:

(a) As at 31 December 2018, the Group held 100,000 shares (2017: 100,000 shares) in Network CN Inc. ("NCN"), which is a US based publicly traded company, listed on the Over the Counter Bulletin Board market ("OTCBB") under the symbol of NCN. NCN is engaged in the provision of out-of-home advertising in China through the operation of a network of roadside LED digital video panels, mega-size LED digital video billboards and light boxes in major cities.

(b) As at 31 December 2018, the Group held 15% of equity interests (2017: Nil) in Ever Tech Sino (Holdings) Limited ("Ever Tech"), which is a private company. Ever Tech is provided business information technology solution services.

(c) During the year ended 31 December 2018, the fair value change in respect of the Group's financial assets at fair value through other comprehensive income amounted to approximately HK$736,000 (2017: nil).

22. LONG-TERM PREPAYMENTS

	2018 HK$'000	2017 HK$'000
Prepayments in relation to occupation fee	113,750	152,750
Less: Amount shown under current assets	(39,000)	(39,000)
	74,750	113,750

The amounts represent the occupation fee prepayment of approximately HK$113,750,000 (2017: approximately HK$152,750,000) for leasing the funeral parlour of Kowloon Funeral Parlour Company Limited ("KFP") from 1 December 2016 to 30 November 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. LOAN RECEIVABLES

The maturity profile of the loan receivables at the end of the reporting period, analysed by the maturity date, is as follows:

	2018 HK$'000	2017 HK$'000
Loan receivables denominated in Hong Kong dollar:		
Within one years	159,683	121,118
Two to five years	–	2,815
	159,683	123,933
Less: Provision for impairment loss	(4,372)	(96)
	155,311	123,837
Carrying amount analysed for reporting purpose:		
Current assets	155,311	121,022
Non-current assets	–	2,815
	155,311	123,837

At 31 December 2018, the Group does not hold any collateral over the loan receivables (2017: Nil).

Information about the impairment of loan receivables and the Group's exposure to credit risk can be found in Note 5(b).

24. INVENTORIES

	2018 HK$'000	2017 HK$'000
Finished goods	10,052	10,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

25. TRADE RECEIVABLES

The average credit period on sales of goods is 30 days (2017: 30 days). In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

	2018 HK$'000	2017 HK$'000
Trade receivables	–	980
Less: Provision for impairment loss of trade receivables	–	(233)
	–	747

As at 31 December 2017, the Group's trade receivables of approximately HK$233,000 were individually determined to be impaired. The individual impaired receivables related to customers that were in financial difficulties and management assessed that the receivables were not expected to be recovered. The Group does not hold any collateral over these balances.

An ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2018 HK$'000	2017 HK$'000
0-30 days	–	19
31-60 days	–	63
Over 60 days	–	665
	–	747

As at 31 December 2017, included in the Group's trade receivables balance are debtors with a carrying amount of approximately HK$728,000 which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there had not been a significant change in credit quality and the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

25. TRADE RECEIVABLES *(Continued)*

An ageing analysis of trade receivables which are past due but not impaired is as follows:

	2018 HK$'000	2017 HK$'000
Neither past due nor impaired	–	19
Less than 30 days past due	–	63
31-60 days past due	–	53
Over 60 days past due	–	612
	–	747

Movement in provision for impairment loss of trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
Balance at the beginning of the year	233	894
Written off during the year	(233)	–
Eliminated on disposal of a subsidiary	–	(677)
Exchange alignment	–	16
	–	233

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the Directors considered impairment loss is values to be made in respect of trade receivables to their recoverable values and believed that there is no further credit provision required in excess of the allowance for doubtful debts.

26. PROMISSORY NOTE RECEIVABLE

As at 31 December 2018, the Company did not hold any promissory note. As at 31 December 2017, the Company hold a promissory note with principal amount of HK$3,500,000) and which bear interest of 12% per annum which was matured is on 15 June 2018. Upon maturity, certain promissory note with principal amount of HK$1,270,000 was reclassified to other receivables during the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Held for trading:		
– Listed equity securities in Hong Kong	1,392	2,040

The fair value of listed securities in Hong Kong is determined based on quoted market bid price available on the Stock Exchange of Hong Kong Limited.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Deposits and other receivables (Note (b))	111,153	76,417
Consideration receivable on disposal of subsidiaries (Note (c))	40,095	47,095
Consideration receivable on disposal of an associate	–	22,000
	151,248	154,312
Less: impairment loss (Note 5(b))	(23,439)	–
Other deposits and receivables, net	127,809	145,512
Prepayment (Note (a))	40,245	43,014
Amount due from a joint venture (Note (d))	8,800	8,800
Less: impairment loss of amount due from a joint venture	(8,800)	–
	–	8,800
	168,054	197,326

Note:

(a) As at 31 December 2018 and 2017, the prepayments mainly represents current portion occupation fee prepayment of HK$39,000,000 for leasing the funeral parlour of KFP (Note 22).

(b) As at 31 December 2018, the other deposits and receivables of the Group mainly represents amount receivable from KFP of approximately HK$95,287,000 which is guaranteed by the controlling shareholder and director of KFP, interest-free and repayable within one year. The Directors considered the amount was recoverable.

(c) The term of repayment was extended during the year ended 31 December 2018 and 2017. The Directors considered the amount was recoverable.

(d) Amount due from a joint venture is unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. CASH AND BANK BALANCES

	2018 HK$'000	2017 HK$'000
Cash and bank balances	3,082	31,777

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$68,000 (2017: HK$51,000). RMB is not freely convertible into other currencies, however, under Mainland China's foreign exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The bank deposits subject to conditions carry average floating interest rate at prevailing market rate per annum. The effective interest rates on the Group's bank deposits subject to conditions are also equal to contracted interest rates.

30. TRADE PAYABLES

An ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
0-30 days	–	–
31-60 days	–	–
Over 60 days	28	323
	28	323

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. BORROWINGS

	2018 HK$'000	2017 HK$'000
Unsecured (note (i))	211,648	191,180
Carrying amount repayable:		
Within one year	178,959	157,867
More than one year, but not exceeding two years	–	3,209
More than two years, but not exceeding five years	22,309	20,227
More than five years	10,380	9,877
	211,648	191,180
Less: Amount shown under current liabilities	(178,959)	(157,867)
	32,689	33,313

Notes:

(i) The amount of borrowings represent the unsecured bonds from several independent third parties.

(ii) As at 31 December 2018, the Group's borrowings carried effective interest rate of 4.64% to 27.27% per annum (2017: 4.64% to 23.53% per annum).

(iii) The unsecured bonds were initially recognised after net of borrowing cost, commission of approximately HK$21,463,000 (2017: HK$28,706,000) and prepaid interest of approximately HK$2,413,000 (2017: HK$12,850,000).

32. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Other payables	8,184	10,960
Accruals (Note)	11,719	9,122
	19,903	20,082

Note:

Accruals mainly represents the accrued interests of approximately HK$8,782,000 (2017: HK$6,725,000) on the borrowings (Note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. SHARE CAPITAL

Ordinary shares

	Par value	Number of shares	Share capital
	HK$	'000	HK$'000
Authorised:			
Ordinary shares as at 1 January 2017	1	1,000,000	1,000,000
Share sub-division (Note (i))		1,000,000	–
At 31 December 2017, 1 January 2018 and 31 December 2018	**0.5**	**2,000,000**	**1,000,000**
Issued and fully paid:			
At 1 January 2017	1	461,360	461,360
Share sub-division (Note (i))		461,360	–
At 31 December 2017, 1 January 2018 and 31 December 2018	**0.5**	**922,720**	**461,360**

Notes:

(i) On 13 April 2017, the Company implemented share sub-division on the basis that every one share of HK$1 each into two sub-divided shares of HK$0.5 each.

Share Options

Details of the Company's share option scheme are included in Note 34 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Old Share Option Scheme"), the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Old Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The Old Share Option Scheme became effective for a period of ten years commencing 24 May 2002 (the date on which the Old Share Option Scheme was adopted).

As at 31 December 2018 and 2017, there was no share options granted by the Company under the old share option scheme.

On 9 December 2010, the company adopted the new share option scheme (the "New Share Option Scheme"). Pursuant to the New Share Option Scheme, the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The New Share Option Scheme became effective for a period of ten years commencing on 9 December 2010 (the date on which the New Share Option Scheme was adopted).

At the date of approval of these consolidated financial statements, no share options had been granted under the New Share Option Scheme (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

35. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 34 of the consolidated financial statements.

(i) Contributed surplus

The Group's contributed surplus as at 31 December 2018 and 2017 represents the amount of HK$368,178,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001 and cancellation of share account during the year ended 31 December 2016.

To facilitate the issue of the Bonus Shares, the Board cancel all amounts standing to the credit of the share premium account of the Company and to transfer all the credit arising from such cancellation to the contributed surplus account of the Company. The cancellation of the credit of the share premium account and transfer of the amount to the contributed surplus account was passed at the special general meeting held on 13 June 2016.

(ii) Financial assets at fair value through other comprehensive income reserve

Financial assets at fair value through other comprehensive income revaluation reserve represents cumulative gains and losses on revaluation of financial assets at fair value through other comprehensive income recognised in other comprehensive income less those cumulative gains and losses recycled and transfers amounts from this reserve to retained earnings upon derecognition of fair value through other comprehensive income.

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases office properties, staff quarter and funeral parlour under operating leases arrangements. Leases for properties are negotiated for lease terms ranging from one to five years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	478	403
In the second to fifth years, inclusive	114	97
	592	500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

Compensation of key management personnel of the Group:

	2018 HK$'000	2017 HK$'000
Short term employee benefits	2,148	2,723
Pension scheme contribution	69	71
Total compensation paid to key management personnel	2,217	2,794

Further details of Directors' emoluments are included in Note 11 to the consolidated financial statements.

38. CAPITAL COMMITMENT

At 31 December 2018, the Group had no outstanding capital comprehensive (2017: Nil)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		26	3
Investments in subsidiaries		–	–
Available-for-sale financial assets		–	98
Financial assets at fair value through other comprehensive income		780	–
		806	101
Currents assets			
Amounts due from subsidiaries		435,002	428,633
Promissory note receivable		–	3,500
Prepayments, deposits and other receivables		19,649	37,765
Cash and bank balances		1,724	25,495
		456,375	495,393
Currents liabilities			
Borrowings		178,959	157,867
Other payables and accruals		11,646	10,109
Amount due to a subsidiary		74,830	67,842
		265,435	235,818
Net current assets		190,940	259,575
Total assets less current liabilities		191,746	259,676
Non-current liability			
Borrowings		32,689	33,313
Net assets		159,057	226,363
Capital and reserves			
Share capital		461,360	461,360
Reserves	40	(302,303)	(234,997)
Total equity		159,057	226,363

Approved by the Board of Directors on 29 March 2019 and signed on its behalf by:

Mr. Wong Wai Leung
Director

Mr. Sun, Miguel
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. RESERVES OF THE COMPANY

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Financial assets at fair value through other comprehensive income reserve HK$'000	Total HK$'000
At 1 January 2017	–	368,178	(525,064)	–	–	(156,886)
Loss for the year	–	–	(78,154)	–	–	(78,154)
Other comprehensive income for the year	–	–	–	43	–	43
Total comprehensive loss for the year	–	–	(78,154)	43	–	(78,111)
At 31 December 2017 as originally presented	–	368,178	(603,218)	43	–	(234,997)
Change in accounting policy	–	–	(4,193)	(43)	43	(4,193)
At 1 December 2018 as restated	–	368,178	(607,411)	–	43	(239,190)
Loss for the year	–	–	(63,795)	–	–	(63,795)
Other comprehensive income for the year	–	–	–	–	682	682
Total comprehensive loss for the year	–	–	(63,795)	–	682	(63,113)
At 31 December 2018	**–**	**368,178**	**(671,206)**	**–**	**725**	**(302,303)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and paid-up/ registered share capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities and place of operation
Directly held:					
EMAX Venture Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holdings, Hong Kong
General Asia Holdings Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holdings, Hong Kong
Elite Finance Global Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holdings, Hong Kong
Earn Fine Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Inactive, Hong Kong
Merit Vision Holdings Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Provision of funeral sevices and sale of funeral related products, Hong Kong
Most Earning Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holdings, Hong Kong
Successful Action Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment, Hong Kong
Gainer Power Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holdings, Hong Kong
Great Mark Holdings Limited	Hong Kong, limited liability company	HK$1	100%	100%	Investment holdings, Hong Kong

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and paid-up/ registered share capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities and place of operation
Indirectly held: *(Continued)*					
Able Profit (Hong Kong) Limited	Hong Kong, limited liability company	HK$1	100%	100%	Investment holdings, Hong Kong
Most Fame (China) Limited	Hong Kong, limited liability company	HK$1	100%	100%	Investment holdings, Hong Kong
Profit Value Group Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holdings, Hong Kong
The Shrine of Nansha Limited	Hong Kong, limited liability company	HK$1	100%	100%	Investment holdings, Hong Kong
Ming De Tang Trading (ShenZhen) Limited Company	The PRC, limited liability company	HK$1,000,000	100%	100%	Provision of funeral service and sale of funeral related products, the PRC
Able Wealthy (China) Limited	Hong Kong, limited liability company	HK$1	100%	100%	Investment, Hong Kong
Join Wealth Finance (Hong Kong) Limited	Hong Kong, limited liability company	HK$1	100%	100%	Loan financing business, Hong Kong
Arts & Cultural Exchange Limited	Hong Kong, limited liability company	HK$1	100%	100%	Investment holdings, Hong Kong

The Directors of the Company made an assessment as at the date of initial application of HKFRS 12 and at the end of the reporting period. In the opinion of the Directors, there is no subsidiary that has non-controlling interest individually that is material to the Group and therefore no information is disclosed for these non-wholly owned subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

42. ACQUISITION OF A SUBSIDIARY

For the year ended 31 December 2017

On 2 March 2017, The Shrine of Nansha Limited, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with three third parties (the "Vendor"), pursuant to which the Vendor shall sell as beneficial owner all of the sale shares and the Purchaser shall purchase the Sale Shares at the HK$3,900,000. The Sale Shares, consisting of 75,000 shares of the Target Company, represents 75% equity Athena Papercrafts Limited ("Athena Papercrafts") is principally engaged in paper strips offerings in Hong Kong. The acquisition was completed on 5 March 2017.

The fair value of the net identifiable assets acquired and the goodwill arising are as follows:

	HK$'000
Property, plant and equipment	7
Inventories	508
Trade receivables	30
Cash and bank balances	2
Accruals and other payables	(458)
Tax payables	(5)
	84
Less: amount due to ex-shareholder	326
Total identifiable net assets acquired	410
Non-controlling interests	(102)
Goodwill on acquisition	3,592
	3,900

The non-controlling interests recognised at the acquisition date were measured by reference to the proportionate share of fair values of Athena Papercrafts's net assets at the acquisition date and amounted to approximately HK$102,000.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

The consideration of the acquisition is satisfied by cash of HK$3,900,000.

	HK$'000
Consideration satisfied by:	
Cash	3,900
Net cash outflow arising on the acquisition:	
Consideration paid in cash	(3,900)
Less: cash and bank balances acquired	2
	(3,898)

The Group incurred transaction costs of approximately HK$59,000 for this acquisition. these transactions costs have been expenses and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

42. ACQUISITION OF A SUBSIDIARY *(Continued)*

For the year ended 31 December 2017 *(Continued)*

Since the acquisition, Athena Papercrafts contributed approximately HK$144,000 to the Group's revenue and caused a net loss of approximately HK$310,000 to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

Had the acquisition of Athena Papercrafts been effected at the beginning of the year, the total amount of revenue for the Group for the year ended 31 December 2017 would have been approximately HK$113,622,000, and the amount of the loss for the year would have been approximately HK$47,257,000.

43. DISPOSAL OF A SUBSIDIARY

For the year ended 31 December 2018

On 2 January 2018, Shrine of Nansha Limited, a partly owned subsidiary of the Company sold the entire 75% equity interest of Athena Papercrafts Limitedat a consideration of approximately HK$3,900,000.

The disposal was completed on 5 January 2018. Net assets of the disposal Group at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	5
Goodwill	3,592
Account receivables	60
Inventory	472
Bank balances and cash	55
Amount due to shareholders	(35)
Amount due to an immediate holding company	(452)
Tax payable	(5)
Net assets disposed of	3,692
Gain on disposal of a subsidiary:	
Consideration receivables	3,900
Net assets disposed of	(3,692)
Wavier of amount due to an immediate holding company	(452)
Non-controlling interest	24
Loss on disposal of a subsidiary	(220)
Consideration received	3,900
Less: bank balances and cash	(55)
Net cash inflow arising on disposal:	
Cash consideration	3,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

43. DISPOSAL OF A SUBSIDIARY *(Continued)*

For the year ended 31 December 2017

On 20 November 2017, Able Profit (Hong Kong) Limited, a wholly owned subsidiary of the Company sold the entire 60% equity interest of south China Memorial Park & funeral services Limited at a consideration of approximately HK$12,000.

The disposal was completed on 20 November 2017. Net assets of the disposal Group at the date of disposal were as follows:

	HK$'000
Net assets disposed of	–
Gain on disposal of a subsidiary:	
Consideration receivables	12
Net liabilities disposed of	(–)
	12
Net cash outflow arising on disposal:	
Cash consideration	12

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Borrowings (Note 31) HK$'000
At 1 January 2017	168,529
Changes from financing cash flows:	
Interest paid	(13,394)
Proceeds from issue of bonds	132,905
Repayment of bonds	(127,750)
Total changes from financing cash flows	(8,239)
Other charges:	
Interest expenses	30,890
At 31 December 2017 and 1 January 2018	191,180
Changes from financing cash flows:	
Interest paid	(15,054)
Proceeds from issue of bonds	161,753
Repayment of bonds	(164,200)
Total changes from financing cash flows	(17,501)
Other charges:	
interest expenses	37,969
At 31 December 2018	211,648

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

45. MATERIAL EVENT AFTER THE REPORTING PERIOD

The following significant events took place subsequent to the reporting period:

On 29 January 2019, the Company entered a subscription agreement with Shanghai Quanfu Industry Company Limited ("the "Subscriber"), pursuant to which the Subscriber has conditionally agreed to subscribe, and the Company has conditionally agreed to issue convertible bonds in, the principal amount of up to HK$36,000,000 (the "Subscription"). The estimated net proceeds from the Subscription will be approximately HK$35.8 million. For details, please refer to the Company's announcements dated 29 January 2019, 19 February 2019 and 20 February 2019.

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019.

FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
RESULTS					
Continuing operations					
Turnover	91,162	113,580	87,768	83,155	74,765
Cost of sales	(49,661)	(67,525)	(66,052)	(64,016)	(69,237)
Gross profit/(loss)	41,501	46,055	21,716	19,139	5,528
Other revenue	361	3,944	1,580	1,112	1,188
Other (loss)/gain, net	(67)	39	393	157	124
Fair value change of financial assets at fair value through profit or loss	(648)	(4,454)	(387)	–	–
Impairment loss of intangible assets	(11,576)	(5,829)	(3,310)	–	–
Net impairment losses on financial assets measured at amortised cost	(9,580)	(96)	–	–	–
Impairment loss on amount due from a joint venture	(8,800)	–	–	–	–
Loss on disposal of an associate	–	(376)	–	–	–
Selling and distribution costs	(6,864)	(5,867)	(5,717)	(6,452)	(5,798)
Administrative expenses	(41,460)	(44,760)	(36,665)	(33,851)	(39,452)
Change in fair value of derivative financial assets	–	–	–	–	(13)
Loss from operations	(37,133)	(11,344)	(22,390)	(19,895)	(38,423)
Finance costs	(37,969)	(30,965)	(33,793)	(29,802)	(6,838)
Share of result of associates	–	339	37	(655)	(30)
Share of result of a joint venture	(1,160)	(1,120)	(1,170)	(1,182)	(1,156)
Loss before taxation	(76,262)	(43,090)	(57,316)	(51,534)	(46,447)
Taxation	–	(4,029)	(936)	(112)	7
Loss for the year from continuing operations	(76,262)	(47,119)	(58,252)	(51,646)	(46,440)
Discontinued operations					
Profit/(loss) for the year from continuing operations	–	–	–	–	–
Loss for the year	(76,262)	(47,119)	(58,252)	(51,646)	(46,440)
Attributable to:					
Owners of the Company	(76,262)	(67,736)	(53,699)	(50,508)	(41,782)
Non-controlling interests	–	20,617	(4,553)	(1,138)	(4,658)
	(76,262)	(47,119)	(58,252)	(51,646)	(46,440)

			As at 31 December		
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
ASSETS AND LIABILITIES					
Total assets	552,930	634,050	648,339	298,173	288,804
Total liabilities	(233,771)	(216,671)	(191,047)	(185,919)	(121,536)