

LARRY JEWELRY

INTERNATIONAL COMPANY LIMITED

Incorporated in Bermuda with limited liability Stock Code: 8351

2018
ANNUAL REPORT

CHARACTERISTICS OF THE GEM ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors (the "Directors") of Larry Jewelry International Company Limited (the "Company") 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 enquires, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Wing Chung
Mr. Wong Kui Shing Danny

Independent Non-executive Directors

Mr. Ong Chi King
Mr. Shum Lok To
Mr. Tso Ping Cheong Brian

BOARD COMMITTEES

Audit Committee

Mr. Shum Lok To (*Chairman*)
Mr. Ong Chi King
Mr. Tso Ping Cheong Brian

Remuneration Committee

Mr. Ong Chi King (*Chairman*)
Mr. Chan Wing Chung
Mr. Shum Lok To
Mr. Tso Ping Cheong Brian
Mr. Wong Kui Shing Danny

Nomination Committee

Mr. Tso Ping Cheong Brian (*Chairman*)
Mr. Chan Wing Chung
Mr. Ong Chi King
Mr. Shum Lok To
Mr. Wong Kui Shing Danny

COMPLIANCE OFFICER

Mr. Wong Kui Shing Danny

COMPANY SECRETARY

Mr. Chan Wing Chung

AUTHORISED REPRESENTATIVES

Mr. Chan Wing Chung
Mr. Wong Kui Shing Danny

AUDITOR

Deloitte Touche Tohmatsu (resigned on 4 March 2019)
Zhonghui Anda CPA Limited (appointed on 4 March 2019)

PRINCIPAL BANKERS

Bank of China
China Construction Bank (Asia) Corporation Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11 Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 704, 7/F
1063 King's Road
Quarry Bay
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and transfer agent

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong branch share registrar and transfer office

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

STOCK CODE

Stock Exchange of Hong Kong: 8351

COMPANY WEBSITE AND INVESTOR RELATIONS

www.larryjewelryinternational.com

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company and its subsidiaries (the "Group") for the last five financial years is set out below:

	Year ended 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	384,647	434,748	264,082	191,769	264,414
Gross profit	93,704	152,227	91,702	46,026	60,201
Profit/(loss) before income tax	250,819	(831,352)	(84,584)	(53,908)	(77,534)
Profit/(loss) for the year attributable to owners of the Company	251,839	(816,569)	(83,807)	(50,450)	(74,091)
Basic profit/(loss) per share (HK cents)	7.00	(24.21)	(5.82)	(13.33)	(2.64)

	At 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Non-current assets	187,098	205,622	399,791	114,934	74,058
Current assets	445,166	643,723	453,396	205,364	310,945
Current liabilities	409,503	438,743	229,744	15,817	19,934
Net assets (liabilities)	204,381	(151,064)	588,830	297,298	354,113

MANAGEMENT DISCUSSION AND ANALYSIS

Dear Shareholders,

On behalf of the board of Directors (the "Board"), I am pleased to present the Group's annual results for the year ended 31 December 2018 (the "Year").

During the Year, the Group principally engaged in (i) design and sale of a broad range of fine jewelry products in Hong Kong and Singapore; and (ii) sourcing, processing, re-packaging and retailing of Chinese pharmaceutical products, dry seafood, health products and foodstuff in Hong Kong, Macau and the Mainland China. The Group's revenue and gross profit for the Year decreased by approximately 11.5% and 38.4% respectively. In order to tackle the tough operating environment, the Group implemented stringent long-term cost control measures. The Group's net profit for the year was HK\$251,839,000 (2017: net loss of HK\$816,569,000).

Looking ahead, the Board and management expect the business environment to remain challenging but we are cautiously optimistic towards the overall outlook of the Group. We will endeavor to stabilise the existing jewelry retail operations and seek for new income source to enable the Group to grow and move forward. We try to achieve a diversified customer base through the introduction of new distinctive and unique product designs to more youthful, cosmopolitan audience.

BUSINESS REVIEW AND PROSPECTS

The Group's business can be broadly categorised into two main sectors: (i) jewelry and (ii) pharmaceutical and health food products.

Jewelry

A new flagship shop was opened in a high-end shopping mall in Central in April 2018.

The jewelry segment focuses on design and sales of jewelry products under the "Larry Jewelry" brand. The Group focuses on the development of products that are unique in design and of superb craftsmanship to meet the needs of individuals who have a discerning taste in jewelries.

The luxury goods market in Hong Kong remained soft in 2018, and the jewelry segment recorded a drop in revenue of about 20.4% for the year ended 31 December 2018 as compared to 2017. Although there is a slight rebound of Hong Kong retail market according to recent statistics, Hong Kong is still facing weak momentum in retail industry. The Group managed to achieve a better profit margin in both Hong Kong and Singapore market.

The Group remains cautiously optimistic in the luxury jewelry market in the long-run. The Group will explore opportunities to broaden the geographic base of customers to markets outside Hong Kong and Singapore and increase its visibility across South East Asian countries. The Group also seeks to achieve a diversified customer base through the introduction of new distinctive and unique product designs to more youthful, cosmopolitan audience.

MANAGEMENT DISCUSSION AND ANALYSIS

Pharmaceutical and health food products

TFH and its subsidiaries are principally engaged in the business of sourcing, processing, re-packaging and retailing of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in the brand name of "Tung Fong Hung" ("東方紅") in Hong Kong, Macau and the mainland China. In Hong Kong, Tung Fong Hung Medicine Company Limited, the retailing arm of TFH, is a licensed manufacturer of nine types of traditional Chinese medicine ("TCM") under the Chinese Medicine Ordinance. As at 31 December 2018, TFH has 15 retail shops in Hong Kong, 2 retail shops in Macau and 35 retail outlets in the mainland China. A new retail shop will open in a high-end shopping mall in Tseung Kwan O in mid-2019. The head office of TFH is located at Tai Po Industrial Estate in Hong Kong.

Despite the weak retail market, TFH Macau contributed operating profits of approximately HK\$1,671,000 (2017: HK\$629,000) to the Group during the year.

Looking ahead, TFH shall review the sales network and customer focus of TFH and to introduce more locally made products to suit the needs of domestic market through its newly refurbished food and TCM production facilities.

In light of the recent business environment and financial resources on hand, the Group will continue to seek for suitable business opportunities to diversify the Group's existing business stream to enhance the long-term benefits of the Company and the shareholders of the Company as a whole.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year was approximately HK\$384,647,000 compared to approximately HK\$434,748,000 for the last financial year, representing a decrease of about 11.5%, which was mainly attributed to decrease in revenue of TFH of approximately HK\$19,214,000 and approximately HK\$30,887,000 decrease in revenue in jewelry segment.

Gross Profit

The Group's gross profit for the year decreased by about 38.4% to approximately HK\$93,704,000 compared to approximately HK\$152,227,000 for the last financial year. The Group's gross profit margin was approximately 24.4% compared to approximately 35.0% for the last financial year.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year decreased by about 0.8% to approximately HK\$147,398,000 compared to approximately HK\$148,583,000 for the last financial year.

Administrative Expenses

The Group's administrative expenses for the year decreased by about 63.3% to approximately HK\$63,159,000 compared to approximately HK\$172,046,000 for the last financial year. The decrease was mainly attributable to effect of cost control measure during the Year.

Impairment Loss on Goodwill

During the year, the Group recognised impairment loss on goodwill of nil (2017: HK\$105,258,000).

Finance Costs

The Group recorded finance cost of approximately HK\$34,588,000 (2017: HK\$19,149,000) for the year, which was due to increase in interest on bank and other borrowings and effective interest on bonds during the year.

Profit/(loss) Attributable to Owners of the Company

The profit attributable to owners of the Company was approximately HK\$251,839,000 for the year compared to a loss of approximately HK\$816,569,000 for the last financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK\$39,876,000 (2017: HK\$257,942,000) and pledged bank deposits of approximately HK\$9,041,000 (2017: HK\$17,912,000). As at 31 December 2018 and 2017, the Group had bank and other borrowing, bonds and convertible bonds amounted to approximately HK\$40,000,000 (2017: HK\$18,178,000), nil (2017: HK\$73,226,000) and HK\$209,729,000 (2017: HK\$542,282,000), respectively. The gearing ratio which is defined as bonds, warrants, convertible bonds and bank and other borrowings in total divided by total equity was approximately 122% (2017: -571%).

As at 31 December 2018, the Group had net current assets of approximately HK\$35,663,000 (2017: HK\$204,980,000). The current ratio of the Group as at 31 December 2018 was approximately 1.1 (2017: 1.5).

The Group financed its operations principally by revenue generated from business operations and available bank and cash balances. Management considers the financial position of the Group is healthy with adequate working capital for daily operations.

CAPITAL STRUCTURE

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings (note 28), convertible bonds (note 29), bonds and warrants (note 30) and accrued coupon interest (included in "other payables and accruals"), net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

CAPITAL COMMITMENTS

As at 31 December 2018, the capital commitments in respect of acquisition of plant and machinery contracted for but not provided in the consolidated financial statements amounted to approximately nil (2017: HK\$732,000).

OPERATING LEASE COMMITMENTS

The Group's operating lease commitments which are primarily related to the leases of its office premises and retail premises, amounted to approximately HK\$92,063,000 and HK\$74,742,000 as at 31 December 2018 and 2017, respectively.

SIGNIFICANT INVESTMENT

As at 31 December 2018 and 2017, there was no significant investment held by the Group.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

There was no material acquisitions nor disposals of subsidiaries or affiliated companies during the Years.

PLEDGE OF ASSETS

As at 31 December 2018, the Group's pledged bank deposits of approximately HK\$9,041,000 (2017: HK\$17,912,000) were pledged as securities for bank guarantees provided by banks to certain suppliers and credit facilities provided by banks.

CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group had no significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the Year, the Group's exposure to currency risk was limited to its pledged bank deposits and trade payables denominated in United States Dollars ("USD") as majority of the Group's transactions, monetary assets and liabilities are denominated in Hong Kong Dollars ("HK\$"), Renminbi ("RMB") and Singapore Dollars ("SGD"). The Group is of the opinion that its exposure to foreign exchange rate risk is limited. The Group will continue to monitor its foreign currency exposure closely.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies with stringent credit control and monitoring policies. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that it can meet the funding requirements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 399 (2017: 452) employees, including the Directors. Total staff costs (including Directors' emoluments) were approximately HK\$73,012,000 (2017: HK\$141,084,000). Decrease in total staff cost is due mainly to share option granted during the 2017. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employees. Year-end bonuses based on individual performance are paid to employees as recognition of, and reward for, their contributions. Other benefits include contributions to statutory mandatory provident schemes to the employees as well as a share option scheme.

OUTLOOK

Looking ahead, the Group expects the retailing environment will remain challenging, while the Group remains cautiously optimistic in the retail market in the long-run. The Board and management of the Group will carefully consider the nature of all future investments based on the market environment. In 2019, the Group will focus its efforts on the following strategic initiatives:

a. Consumer Markets Broadening

The Group has established a significant presence for the "Larry Jewelry" and "Tung Fong Hung" brand in Asia and will continue to expand by identifying suitable sites to open more retail outlets in Hong Kong, Macau, Singapore and the Mainland China with detailed plans.

The Group will also look for viable business opportunities outside Asia for the development of the Group's overseas markets to reach a broader geographical spread of customer and increase its visibility throughout the world.

b. Consumer Diversification

The Group will seek to achieve a diversified customer base through the introduction of new distinctive and unique product designs to more youthful, cosmopolitan audience at a competitive price.

The Group is also in the view that working executives are individuals with more disposable income and will pursue a better lifestyle and unique products. They are more eager to spend on consumer products to reward themselves as well as reflect their taste and personality.

The Group will develop different digital marketing channels, such as reinvention of the Company's website, to capture the consumers from all walks of life.

MANAGEMENT DISCUSSION AND ANALYSIS

c. Cost Reduction Program

The Group believes that improving and maintaining the efficiency of the business is key to its long-term success. As such, the management of the Group will continue to apply the existing cost control measures, periodically reviewing and adjusting the measures as appropriate to optimize the allocation of resources.

The Group will also review the current retail network in Hong Kong, Macau, Singapore, the Mainland China and cautiously assess the performance of existing retail stores. The Group will consider closing non-performing stores upon expiration of their lease periods so as to focus on locations that have high foot traffic in areas that attract a significant number of potential customers, including but not limited to tourists, thus maximising the efficiency of its operations.

The management will also remain dedicated improving same-store sales and inventory turnover through the introduction of workshops, customer events and marketing campaigns. The Group believes these activities will allow the customers with more opportunities to understand the industry and the Group's products, as well as increase their confidence on "Larry Jewelry" and "Tung Fong Hung" brand and the services of Group.

d. Potential Acquisition

In light of the tough retail market, the Group will continue to explore suitable business opportunities to diversify the Group's existing business stream to enhance the long-term benefits of the Company and its shareholders as a whole. As such, it is the Group's business strategies to seek for possible acquisition of a business other than the design and sale of jewelry products and pharmaceutical and health food products, and to expand its retail market to other regions of the Greater China.

The Group will try its best endeavor to implement these strategic initiatives and enable the Group to grow and move forward.

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, the customers, suppliers, banks and other business associates of the Group for the continued support. I would also like to thank our Directors, management team and staff, whose talent and efforts are the Group's most valuable resource for further development.

Wong Kui Shing Danny

Executive Director

Hong Kong, 31 March 2019

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Chan Wing Chung ("Mr. Chan"), aged 43, was appointed as an executive Director on 3 October 2016. He is also a member of the remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee"), company secretary and authorised representative of the Company. Mr. Chan holds a bachelor's degree of arts in accountancy and a master's degree in corporate governance from The Hong Kong Polytechnic University. He is an associate member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Mr. Chan has more than 20 years of experience in financial management, information technology, corporate finance and acquisition transactions. Prior to joining the Company, Mr. Chan had been the chief financial officer of SMI Culture & Travel Group Holdings Limited (stock code: 2366), the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and held senior management positions in a number of companies listed in Hong Kong and the United States of America. Mr. Chan was appointed as an independent non-executive director of Tech Pro Technology Development Limited (stock code: 3823) with effect from 13 February 2019, which was listed on the main board of the Stock Exchange.

Mr. Wong Kui Shing Danny ("Mr. Wong"), aged 59, was appointed as an executive Director on 3 October 2016. He is also a member of the Remuneration Committee and Nomination Committee and authorised representative of the Company. Mr. Wong holds a Bachelor of Arts degree from the University of Hong Kong. He has extensive exposure in the financial and investment fields for over 20 years and is well experienced in the international investment market.

Mr. Wong was appointed as an executive director, the chairman and the chief executive officer of China Information Technology Development Limited (stock code: 8178), the shares of which are listed on the GEM, in March 2015, July 2015 and October 2015, respectively. He was appointed as an executive director and a chief executive officer of Ceneric (Holdings) Limited (stock code: 0542) in August 2015 and November 2016, respectively, an independent non-executive director of Far East Holdings International Limited (stock code:36) with effect from 18 July 2017, an independent non-executive director of Tech Pro Technology Limited (stock code: 3823) with effect from 27 September 2017, and an executive director of Huiyin Holdings Group Limited (formerly known as Share Economy Group Limited) (stock code: 1178) in May 2017, both companies are listed on the main board of the Stock Exchange. He was also appointed as a non-executive director of Kong Shum Union Property Management (Holding) Limited (stock code: 8181), the shares of which are listed on GEM, in October 2015. Mr. Wong was a former executive director and a managing director of See Corporation Limited (stock code: 0491) from December 2009 to January 2015, a former executive director of SMI Holdings Group Limited (formerly known as SMI Corporation Limited) (stock code: 0198) from November 2011 to June 2014, a former non-executive director of Investec Holdings Limited (stock code: 1087) from September 2015 to June 2017, and a former executive director of China Oil and Gas Group Limited ("China Oil") (stock code: 0603) from September 2004 to August 2006, all companies are listed on the main board of the Stock Exchange.

Pursuant to the listing enforcement notice/announcement of the Stock Exchange dated 16 October 2008, Mr. Wong, together with another former director of China Oil, had admitted breaching the directors' declaration, undertaking and acknowledgement with regard to directors given by each of them to the Stock Exchange in the form set out in Appendix 5B to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in failing to use their best endeavours to procure China Oil's compliance with the Listing Rules in relation to the failure of China Oil to publish its annual results and annual report for the year ended 31 July 2005 by 30 November 2005 and the interim results and interim report for the six months ended 31 January 2006 by 30 April 2006. Accordingly, the listing committee of the Stock Exchange publicly criticised Mr. Wong and another former director of China Oil for their respective breaches mentioned above.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Ong Chi King (“Mr. Ong”), aged 45, was appointed as an independent non-executive Director on 15 October 2014. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee. Mr. Ong holds a bachelor degree in business administration from The Hong Kong University of Science and Technology and a master degree in corporate finance from The Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Ong has more than 20 years of experience in accounting, company secretarial field and finance. He has held senior positions in finance and company secretarial departments in various listed companies in Hong Kong. Mr. Ong was a director of Fitness Concept International Holdings Limited, which was incorporated in the Cayman Islands and was dissolved in June 2005 by striking off due to cessation of business. Mr. Ong is an independent non-executive director of China Environmental Resources Group Limited (stock code: 1130). He is also an executive director of Deson Construction International Holdings Limited (stock code: 8268), which is listed on GEM. Mr. Ong was the independent non-executive director of Hong Kong Education (Int'l) Investments Limited (stock code: 1082), Capital VC Limited (stock code: 2324), WLS Holdings Limited (stock code: 8021), Wan Kei Group Holdings Limited (stock code: 1718), King Force Group Holdings Limited (stock code: 8315) and KSL Holdings Limited (stock code: 8170) from February 2014 to November 2017, January 2012 to March 2017, April 2015 to March 2017, June 2015 to March 2017, July 2014 to September 2016 and November 2014 to June 2016, respectively.

Mr. Shum Lok To (“Mr. Shum”), aged 40, was appointed as an independent non-executive Director on 15 October 2014. He is the chairman of Audit Committee and a member of each of the Remuneration Committee and Nomination Committee. Mr. Shum holds a bachelor degree of business administration in accountancy from City University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Shum has over 15 years of experience in accounting, external and internal auditing and finance in Hong Kong and the PRC. Mr. Shum worked in PricewaterhouseCoopers with the last position as a manager and Deloitte Touche Tohmatsu as a manager. Since 2008, Mr. Shum was the finance manager of a subsidiary of a multinational conglomerate company, shares of which are listed on the main board of the Stock Exchange, and was further promoted to hold senior positions of the said subsidiary in 2016. He was also the head of finance of a joint venture at Guangdong, the PRC of the said multinational conglomerate company since 2010. Mr. Shum was appointed as an executive director of Kong Shum Union Property Management (Holding) Limited (“Kong Shum”) (stock code: 8181), shares of which are listed on GEM, on 28 July 2014, re-designated to a non-executive director of Kong Shum on 6 February 2015 and resigned on 8 March 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Tso Ping Cheong Brian (“Mr. Tso”), aged 38, was appointed as an independent non-executive Director on 15 October 2014. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee. Mr. Tso holds a bachelor degree in accountancy and a master degree in corporate governance from The Hong Kong Polytechnic University. He is a practising and fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He was also a fellow member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Mr. Tso has over 10 years of experience in accounting and financial management. From 2003 to 2008, he worked in Ernst & Young with last position as a manager. Mr. Tso was then being the financial controller of Greenheart Group Limited (stock code: 0094) (formerly known as Omnicorp Limited), shares of which are listed on the main board of the Stock Exchange from 2008 to 2010. Mr. Tso was the senior vice president of Maxdo Project Management Company Limited from 2010 to 2012. Since January 2013, he has been the sole proprietor of Teton CPA Company, an accounting firm in Hong Kong. Mr. Tso was a non-executive director of Kong Shum from July 2014 to February 2015. He was appointed as an independent non-executive director of GreaterChina Professional Services Limited (stock code: 8193) on 2 July 2014 and Shenglong Splendecor International Limited (stock code: 8481) on 1 June 2018, shares of which are listed on GEM. Mr. Tso was appointed as an independent non-executive director of Newtree Group Holdings Limited (stock code: 1323) on 27 February 2015 and the company secretary of China Infrastructure Investment Limited (stock code: 600) on 9 March 2015, both of which are listed on the main board of the Stock Exchange. He was appointed as an independent non-executive director of Guru Online (Holdings) Limited (stock code: 8121), shares of which are listed on GEM. He was appointed as a joint company secretary of China Yu Tian Holdings Limited (stock code: 8230) with effect from 1 January 2014 and company secretary of Fineland Real Estate Services Group Limited (stock code: 8376) with effect from 21 March 2017, the shares of which were initially listed on the GEM on 29 December 2015 and 15 November 2017, respectively.

SENIOR MANAGEMENT

Ms. Ng Swee Choo Catherine (“Ms. Ng”), aged 63, is the managing director of the company in Singapore and has worked for the company for more than 40 years. Ms. Ng is a strong leader who is responsible for all business and supporting functions of the company. With her passion for the industry and her loyalty to the company, Ms. Ng has gained strong supports from her internal staff members and external business partners to run and maintain a healthy operation for the company over the past years. Ms. Ng holds a degree in Management.

Mr. Tay Yam Sheng Eric (“Mr. Tay”), aged 57, is the retail director of the company in Singapore and has worked for the company for more than 34 years. Mr. Tay is an effective front line leader who is responsible for the retail operations in Singapore and the sales management for the South East Asian markets. With his extensive experience in the industry and his excellent customer service, Mr. Tay has made valuable contributions and has built a strong loyal customer base for the company over the past years. Mr. Tay holds a professional diploma in Retail Management.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

WORKPLACE QUALITY

Working Condition

The Group strives to provide a pleasant and healthy workplace for its employee. The Group care for its employee and recognise that having good staff relations and a motivated workplace play vital role in the Group's efficient operation. In order to fully develop staff competence and potential, the Group has employee handbooks for different business units that ensure each staff understand the policy of the Group. The employee handbooks highlight general information about the company and policies relating to staff employment. The contents of the employee handbooks are subject to periodic review and changes will be notified by internal memorandum.

Employee Development and Welfare

The Group recognises employees as valuable assets of the Group and the Group strictly complies with the labour laws and regulations of the regions it operates and review regularly the existing staff benefits for improvement.

The Group's remuneration package is structured with reference to the individual performance, working experience and prevailing salary levels in the market. In addition to basic salaries and the MPF Scheme, staff benefits include a flexible leave arrangement, staff purchase scheme, medical coverage scheme, festival gift and annual dinner.

Performance evaluations will be re-initiated each year. Recognising the value in the skill and experience of its staff, the Group intends to adopt a policy that any promotions will be considered internally first before hiring any outside staff. It is the Group's policy to select the most suitable candidate for appointment to a higher rank based on merit, rather than on the seniority of the candidates.

Staff salary payment and promotion will be measured against their progressive performance level, contribution, and achievement against the objectives set by the Group. The annual performance evaluation will be conducted annually. During the performance discussion, staff and management team will meet and talk about the expectations of their jobs so that a mutual understanding of staff responsibilities and performance objectives for the year can be reached.

By offering competitive remuneration package and welfare to staff, its staff turnover rate remains stable in 2018, while job productivity and staff's performance are kept at satisfactory levels.

Workforce by Employment and Region

As at 31 December 2018, the Group had employed total 399 (2017: 452) staffs. Total workforce geographical region and age and gender group are as follows:

Workforce by region

Region	Number of workforce	
	2018	2017
Hong Kong	142	155
Macau	13	15
Singapore	27	27
Mainland China	217	255
	399	452

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Workforce by age and gender

	Below 30	30–50	Over 50	Male	Female	Total in percentage
2018						
Age	9%	69%	22%			100%
Gender				24%	76%	100%
2017						
Age	11%	70%	19%			100%
Gender				26%	74%	100%

Health and Safety

The Group makes the health and life safety of its employees in a close attention focus. The Group provide its employee with flexible rest leave arrangement, medical and hospital scheme. The Group also aware that the good working environment for its employees with a safe and comfortable working condition is very important. The Group has set work arrangement for typhoon and rainstorm warning. In the past years under review, there is no staff fatalities nor serious work related injuries from the Group's operation.

Development and Training

The Group believes that the quality of its employees is the most important factor in sustaining the Group's growth and improving its profitability. Training that providing employees with the opportunities to learn pays dividends for the Group and its employees. The Group gets better-skilled staffs who are more versatile and flexible in their assignments, and employees get the opportunity to learn new skills, gain new ways of viewing the world, and network with others. Except for the training course or seminars sponsored by the Company, all employees can apply for training courses and examination leave that are recommended by their managements. Which in their view, is beneficial both to the Company's corporate direction and to the employees' career development.

Labour Standards

The Group has comply with labour laws and government regulations set out by Hong Kong, Macau, Singapore and the Mainland China. The Group does not employ staff who are below 18 years of age. No employee is paid less than the minimum wage specified by the government regulations. Monthly salary payments are made on time according to the employee handbooks and the MPF Scheme paid for a contribution period before monthly contribution day.

Special Leave arrangement

Except for annual leave, the Group provides special leave arrangement for employees, which including:

Compensation leave or non-office hour support allowance will be granted to employees who are required to work during non-office hours for scheduled tasks;

Maternity leave and paternity leave is granted in accordance with the employment ordinance; and

Compassionate leave will be granted to permanent employees on the death of a member of the immediately family.

Employee Insurances

Labour insurance coverage for all employees in Hong Kong, Macau, Singapore and the Mainland China, which includes medical and hospital insurance in Hong Kong, Macau and Singapore and unemployment insurance, pension and maternity insurance in the PRC.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

Environmental Policy

The Group aims to protect the environment by minimising environmental adverse impacts in daily operations, such as energy saving and recycling of office resources. The Group will continue to seek for better environmental practices and promote the right environmental attitudes within the organization.

The Group's business does not involve any nature resources emissions. However, the Group execute practices that improve energy efficiency, conserve resources for its operation and raise environmental awareness for its employee. The key environmental impacts from the Group's operations related to energy, water and paper consumption. To achieve environment protection, the Group encourage employees to shift to e-statement or scanning to reduce its use of paper and greenhouse gas emissions; switch off all computers and office equipment, electrical and air conditioner at the end of each working day and during lunch break. Actual numerical results for the year under review, paper consumption approximately 162 thousand pieces of paper (2017: 297 thousand pieces of paper), electricity consumption approximately 1,506 thousand kWh (2017: 1,726 thousand kWh), water consumption approximately 7,894 tonnes (2017: 6,988 tonnes), gas consumption approximately 215,290 million Joule (2017: 135,716 million Joule). The Group focus on paper and toner usage throughout all of its operation and the Group have always been devoted to reduce energy consumption.

OPERATING PRACTICES

Relationships with Stakeholders

The Group provides good quality products and services to the customers and maintains a good relationship with the customers. The Group keeps a VIP customer database for direct communications with VIP customers and prompt notification of different types of promotions and sales campaigns.

All employees of the Group are committed to protecting the personal information of customers in strict compliance with relevant laws and regulations. The personal information of customers should be used in the proper context only for authorised business purposes. It benefits for both the Group and customers, and emphasises on the importance and ethical concern.

The Group maintains effective communication and develops a long-term trust relationship with the suppliers. During the Year, there was no material dispute or arguments between the Group and the suppliers.

Anti-Corruption

The Group aims to maintain a high standard of business ethics, certain policies and practices has been implemented for the Group prohibits bribery and corrupt practices. The Group has set out the company policy on the acceptance of advantages. Those involved in the selection of and purchase from suppliers and contractors to avoid any misuse of authority or engage in situations which could affect or appear to affect employee ability to make free and independent decisions regarding the purchase and procurement of goods and services. The policy and practices affect their objectivity in conducting the Company's business, or induce them to act against the interest of the Company, or lead to allegations of impropriety. Any advantage given in the conduct of the Company's business should be in accordance with the Company's prevailing policies on such matters and prior written approval of the Company should be obtained.

As at the date of this report, no employee concluded legal cases regarding corrupt practice, solicit or accept any advantage from any person having business dealings with the Company (2017: Nil) (e.g. customers, suppliers or contractors).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNITY INVESTMENT

The Group encourages our staffs to participate in volunteering events, which could provide an opportunity for them to connect outside the workplace while contributing to the local communities, and the Group target through donations and sponsorships by supporting non-profit-making organisation to help charitable, cultural, educational and other needs of society. During the Year, the Group supported its staff to join several fund-raising activities. The Group wishes to raise fund as caring for people in need and supporting philanthropy activities; taking part in and sponsoring fund-raising activities to the social.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group mainly carries out its businesses in Hong Kong, Macau, mainland China and Singapore. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has materially complied with all relevant laws and regulations in Hong Kong, Macau, Mainland China and Singapore during the Year.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting high standards of corporate governance through its continuous effort in improving its corporate governance practices and process. The Board believes that sound and reasonable corporate governance practices are essential for sustainable development and growth of the Group and for safeguarding the shareholders' interests and the Group's assets.

Throughout the Year, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules ("the Code"). The Company had made specific enquiry of the Directors and all the Directors confirmed that they had complied with the required standard set out in the Code during the Year.

THE BOARD

Composition

The Board currently comprises two executive Directors, namely Mr. Chan Wing Chung and Mr. Wong Kui Shing Danny and three independent non-executive Directors, namely Mr. Ong Chi King, Mr. Shum Lok To and Mr. Tso Ping Cheong Brian.

Biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this Report. The latest list of the Directors and their respective roles and functions was published both on the websites of the Company and the Stock Exchange.

The Company has three independent non-executive Directors, at least one of whom is with appropriate professional qualifications or accounting or related financial management expertise throughout the Year, in compliance with the GEM Listing Rules. Each of the independent non-executive Director has made an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

Role and Delegation

The Board has the responsibility for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board is accountable to shareholders for the strategic development of the Group with the goal of maximising long-term shareholder value, while balancing broader stakeholder interests.

Directors have access to the advice and services of the company secretary of the Company (the "Company Secretary") who is responsible for ensuring that the Board procedures are complied with and advising the Board on compliance matters. Directors are also provided with access to independent professional advice, where necessary, in carrying out their obligations as Directors of the Company, at the expense of the Company. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

Generally, the responsibilities of the Board include:

- formulation of long and short term operational strategies including policies relating to key business and financial objectives of the Company, material acquisitions, investments, disposal of assets or any significant capital expenditure;
- overseeing and reviewing of its financial performance and results and the internal control systems;
- approving appointment, removal or re-appointment of the Directors for election/re-election in general meetings;
- communicating with key stakeholders, including shareholders and regulatory bodies;
- performing corporate governance functions in accordance with the CG Code, including the reviewing and monitoring the corporate governance practices of the Group; and
- recommendation to shareholders on final dividend and the declaration of any interim dividends.

Decisions regarding the daily operation and administration of the Company are delegated to the management, led by the executive Directors and the CEO.

The Directors can attend meetings in persons or through other means of electronic communication in accordance with the bye-laws of the Company (the "Bye-laws"). During the Year, the Board held 5 meetings.

All Directors assume the responsibilities to shareholders of the Company for the well-being and success of the Company. They are aware of their duties to act in good faith and in the best interests of the Company.

The Board is responsible for maintaining proper accounting records so as to enable the Directors to monitor the Company's overall financial position. The Board updates shareholders on the operations and financial position of the Group through quarterly, half yearly and annual results announcements as well as the publication of timely announcements of other matters as prescribed by the relevant rules and regulations.

The Company has arranged appropriate insurance cover for the Directors in connection with the discharge of their responsibilities.

CORPORATE GOVERNANCE REPORT

DIRECTORS RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are ultimately responsible for the preparation of the financial statements for each financial year which gives a true and fair view. In preparing the financial statements, appropriate accounting policies and standards are selected and applied consistently.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 31 to 34 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

The Chairman plays a leading role and is responsible for effective running of the Board while the CEO is delegated with the authority and responsibility of overall management, business development and implementation of the Group's strategy determined by the Board in achieving its overall commercial objectives.

APPOINTMENT AND RE-ELECTION

Pursuant to the Bye-laws, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election. In addition, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

INDUCTION AND CONTINUOUS DEVELOPMENT

Each newly appointed Director receives a comprehensive induction package (the "Package") designed to enhance his/her knowledge and understanding of the Group's culture and operations. The Package usually includes a briefing or an introduction to the Group's structure, businesses strategies, recent developments and governance practices. The Packages have been sent to all Directors newly appointed during the Year.

The Group provided continuous professional training and Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates from time to time. In addition, all Directors were requested to provide the Company with the records of the other training they received. During the Year, the Group provided several seminars and training courses to Directors.

BOARD COMMITTEES

The Board is currently supported by the Audit Committee, Remuneration Committee and Nomination Committee to oversee specific areas of the Company's affairs. Each of these Committees has been established with written terms of reference, which were approved by the Board, setting out the Committee's major duties and responsibilities. These terms of reference were published both on the websites of the Company and the Stock Exchange.

Remuneration Committee

The Board has established a Remuneration Committee in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012). The Remuneration Committee currently comprises two executive Director, namely Mr. Chan Wing Chung and Mr. Wong Kui Shing Danny, and three independent non-executive Directors, namely Mr. Ong Chi King (chairman of the Remuneration Committee), Mr. Shum Lok To and Mr. Tso Ping Cheong Brian.

The Remuneration Committee is responsible for, inter alia, reviewing and making recommendations to the Board on the remuneration package of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee is provided with sufficient resources enabling it to discharge its duties.

During the Year, the Remuneration Committee held 2 meetings.

Nomination Committee

The Board has established a Nomination Committee in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012 and September 2013). The Nomination Committee currently comprises two executive Director, namely Mr. Chan Wing Chung and Mr. Wong Kui Shing Danny, and three independent non-executive Directors, namely Mr. Tso Ping Cheong Brian (chairman of the Nomination Committee), Mr. Ong Chi King and Mr. Shum Lok To.

The Nomination Committee is responsible for, inter alia, reviewing the structure, size and composition of the Board (including skills, knowledge, experience and diversity needed in the future), formulating nomination policy, making recommendations to the Board on nomination, appointment or re-appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors. The Nomination Committee is provided with sufficient resources enabling it to discharge its duties.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, in terms of skills, experience, knowledge, expertise, culture, independence, age and gender, having due regard for the benefits of diversity on the Board.

As at the date of this Report, the Board comprises Directors with diverse backgrounds and/or extensive expertise in the Group's businesses. The Board also has a balanced composition of executive and non-executive directors so that there is a strong independent element on the board, which can effectively exercise independent judgement.

During the Year, the Nomination Committee held 1 meeting.

Nomination Policy

The Nomination Committee has adopted a Nomination Policy that sets out the nomination procedures, process and criteria to select and recommend candidates for directorship.

Selection Criteria

In assessing the suitability of a candidate for directorship, the following criteria (the "Criteria") should be considered:

1. character and integrity;
2. qualifications including professional qualifications, skills, knowledge, accomplishment and experience that are relevant to the Company's business and corporate strategy;

CORPORATE GOVERNANCE REPORT

3. diversity in all aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;
4. commitment in respect of available time and relevant interest; and
5. potential contributions that the individual can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.

The Nomination Committee will evaluate and recommend candidate(s) for the position of the independent non-executive Directors by taking into account (a) the factors set out in Rules 3.10(2) and 3.13 of the GEM Listing Rules, subject to any amendments as may be made from time to time and/or any other rules imposed by the Stock Exchange from time to time; and (b) the Criteria.

Nomination Procedures

The Nomination Committee will recommend to the Board for appointment as additional Director or to fill Board's casual vacancy in accordance with the following procedures:

1. the Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, recommendations from personnel agents or as proposed by shareholders of the Company with due consideration given to the Criteria;
2. the Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as interviews, background checks and third-party reference checks;
3. the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;
4. the Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of a remuneration package of such candidate;
5. the Remuneration Committee will make a recommendation to the Board on the proposed remuneration package; and
6. all appointment of Directors will be confirmed by the signing of the consent to act as Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment, as the case may be) and filing of the same with the Companies Registry of Hong Kong and any other relevant government authorities.

The Nomination Committee will evaluate and recommend retiring Director(s) to the Board for re-appointment in accordance with the following procedures:

1. the Nomination Committee and/or the Board should review the overall contribution and service of the retiring Director(s) to the Company and the level of participation and performance on the Board, including but not limited to the attendance of the meetings of the Board and/or its committees and general meetings;
2. the Nomination Committee and/or the Board should also review and determine whether the retiring Director(s) continue(s) to satisfy the Criteria; and
3. the Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

Monitoring and Review of the Nomination Policy

The Nomination Committee will monitor the implementation of the Nomination Policy and from time to time review the Nomination Policy, as appropriate, to ensure its effectiveness in complementing the Company's corporate strategy and business needs. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Audit Committee

The Board has established an Audit Committee in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012 and 30 December 2015). The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Shum Lok To (chairman of the Audit Committee), Mr. Ong Chi King and Mr. Tso Ping Cheong Brian. The terms of reference of the Audit Committee are aligned with the provisions set out in the CG Code. The Audit Committee performs, amongst others, the following functions:

- ensure that co-operation is given by the Company's management to the external auditors where applicable;
- review the Group's quarterly, half yearly and annual results announcements and the financial statements prior to their recommendations to the Board for approval;
- review the Group's financial reporting process, risk management and internal control system; and
- review of transactions with interested persons.

During the Year, the Audit Committee held 4 meetings.

BOARD AND BOARD COMMITTEES MEETINGS

The Board meets regularly at least four times each year and more frequently as the needs of the business demand. Apart from the Board meetings, the Board would from time to time devote separate sessions to consider and review the Group's strategy and business activities.

Notices of regular Board meetings were served to all Directors at least 14 days before the meetings. For all other Board and Board committees meetings, reasonable notices were given.

The agenda together with all relevant meeting materials are normally sent to all Directors or Committee members at least 3 days before (or other agreed period) each regular Board or Board committees meetings to enable them to make informed decisions with adequate data. The Board and each Director also have direct and independent access to the management whenever necessary.

According to the current Board practice, any material transactions involving a conflict of interest with a substantial shareholder of the Company or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Bye-laws also contain provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CORPORATE GOVERNANCE REPORT

The individual attendance records of each Director at the Board, Board committees and general meetings during the Year are set out below:

Name of Directors	Number of meetings attended/held				
	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	AGM
Executive Directors					
Mr. Chan Wing Chung	4/4	N/A	2/2	1/1	1/1
Mr. Wong Kui Shing Danny	4/4	N/A	2/2	1/1	0/1
Independent Non-executive Directors					
Mr. Ong Chi King	4/4	4/4	2/2	1/1	0/1
Mr. Shum Lok To	4/4	4/4	2/2	1/1	0/1
Mr. Tso Ping Cheong Brian	4/4	4/4	2/2	1/1	0/1

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management systems. Such internal control and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board had engaged an external professional firm to conduct a review on the effectiveness of the Group's internal control and risk management systems once during the year ended 31 December 2018 which covered financial, operational, compliance procedural and risk management functions and the Board had considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. In light of the size and scale of the Group's businesses, the Board is also delegated with the responsibilities for the internal control of the Group and for reviewing its effectiveness. As such, the Group currently does not have an internal audit department. The Board will review and consider to establish such department as and when it thinks necessary.

The Group believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Group has therefore made continued efforts to uplift its quality of corporate governance. It has established a highly effective system of internal controls and adopted a series of measures to ensure its safety and effectiveness. As a result, the Group is able to safeguard its assets and protect the interests of its Shareholders.

The Board is of the view that the systems of internal control and risk management are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

AUDITORS' REMUNERATION

During the Year, the fees paid or payable to the external auditors of the Company are approximately HK\$2,200,000 for audit services and nil for non-audit services respectively.

COMPANY SECRETARY

The appointment and removal of the Company Secretary is subject to approval by the Board in accordance with the Bye-laws. During the year, Mr. Chan Wing Chung ("Mr. Chan") was the Company Secretary. Mr. Chan is an executive Director of the Company.

The Board of the Company or their duly appointed delegate, is the primary point of contact at the Company for the Company Secretary.

Mr. Chan has confirmed to the Company that he has taken no less than 15 hours of relevant professional training for the year ended 31 December 2018.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

Access to Information

The Board recognises the importance of maintaining on-going communication with shareholders. The Company proactively promotes investor relations and communications with shareholders is always given high priority. The aims of the Company are to improve its transparency, gain more understanding and confidence in relation to the Group's business developments and acquire more market recognition and support from shareholders. To ensure all shareholders have equal and timely access to important information of the Company, the Company make extensive use of several communication channels, including publication of financial reports, notices, circulars and announcements, together with other filings as prescribed under the GEM Listing Rules and key news and developments of the Group on its corporate website at www.larryjewelryinternational.com. The "Investor Relations" section offers a level of information disclosure in easily and readily accessible form and provides timely updates to shareholders.

Communication with Shareholders

A shareholders' communication policy was adopted by the Company to maintain an on-going dialogue with shareholders and encourage them to communicate actively with the Company.

In addition to accessing information on the corporate website, enquiries or request of information, to the extent it is publicly available, from shareholders and other report users are welcome by email, telephone or in writing to Mr. Chan at:

Address: Room 704, 1063 King's Road, Quarry Bay, Hong Kong

Telephone: (852) 3151-0321

Facsimile: (852) 3151-0320

Email: eric.chan@larryjewelry.com

Any shareholding matters, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Hong Kong branch share registrar and transfer office of the Company:

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

Telephone: (852) 2980-1333

Facsimile: (852) 2810-8185

Shareholders are encouraged to attend all general meetings of the Company to stay inform the strategies and goals of the Group. The notices of the AGM and special general meetings of the Company were circulated to all shareholders in accordance with the requirements of the GEM Listing Rules and the Bye-laws. The chairman of the meeting explains the detailed procedures for conducting a poll and then answers any questions from shareholders. The results of voting by poll are published on the websites of the Stock Exchange and the Company after the meetings.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

In accordance with the bye-law 58 of the Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, 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 2 months after the deposit of such requisition. If within 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.

For including a resolution to propose a person for election as a Director at general meeting, shareholders are requested to follow the Bye-laws. A written notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting of the Company for which such notice is given of his intention to propose such person for election and also a written notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office of the Company in Hong Kong provided that the minimum length of the period, during which such notices are given, shall be at least seven days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notices shall commence on the day after the despatch of the notice of the general meeting of the Company appointed for such election and end no later than seven days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 17.50(2) of the GEM Listing Rules.

CONSTITUTIONAL DOCUMENTS

The latest version of the Bye-laws and memorandum of association of the Company has been published both on the websites of the Company and Stock Exchange since 30 March 2012 and did not made any amendments to the Company's constitutional documents during the Year.

TAX RELIEF

The Company is not aware of any relief from taxation available to the shareholders by reason of their holdings of Shares.

REPORT OF THE DIRECTORS

The Board present herewith the annual report and the audited consolidated financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 35.

The Board does not recommend the payment of a final dividend for the Year (2016: Nil).

BUSINESS REVIEW

The business review of the Group for the Year is set out in the section headed "Management Discussion & Analysis" on pages 4 to 8 of this Report.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers were less than 5% of the total sales of the Group. Purchases from the five largest suppliers of the Group accounted for approximately 14% (2017: 37%) of the total purchases of the Group for the Year while purchases from the largest supplier accounted for approximately 5% (2017: 13%) of the total purchases of the Group for the Year.

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) has a beneficial interest in the Group's five largest customers and suppliers.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 31 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 38 to the consolidated financial statements and in the consolidated statement of changes in equity on page 38 respectively.

The Company had no distributable reserve as at 31 December 2018 (2017: Nil).

EMOLUMENT POLICY

The Remuneration Committee is responsible for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" below.

REPORT OF THE DIRECTORS

DIVIDEND POLICY

The Company intends to share its profit with shareholders in the form of semi-annual dividends in an aggregate amount per year of no less than 10% of the Company's annual consolidated net income attributable to its shareholders, subject to the criteria as set out below. The Dividend Policy allows the Company to declare special dividends from time to time in addition to the semi-annual dividends.

The Company's liability to pay dividends will depend upon, among other things, the Group's current and future operations, liquidity position and capital requirements, as well as dividends received from the Company's subsidiaries and associate companies. The payment of dividend by the Company is also subject to any restrictions under the Bermuda laws and the Company's Bye-laws.

FINANCIAL SUMMARY

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

DIRECTORS

The Directors during the Year and up to the date of this Report were:

Executive Directors	Independent non-executive Directors
Mr. Chan Wing Chung	Mr. Ong Chi King
Mr. Wong Kui Shing Danny	Mr. Shum Lok To
	Mr. Tso Ping Cheong Brian

In accordance with bye-law 84(1) of the Company's Bye-laws, Mr. Wong Kui Shing Danny and Mr. Shum Lok To shall retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election at the AGM.

The Company has received written confirmations of independence from each of the independent non-executive Directors, namely Mr. Ong Chi King, Mr. Shum Lok To and Mr. Tso Ping Cheong Brian, pursuant to Rule 5.09 of the GEM Listing Rules. As at the date of this report, the Company considers the independent non-executive Directors to be independent.

CHANGES IN INFORMATION OF DIRECTORS

Mr. Chan Wing Chung was appointed as an independent non-executive Director of Tech Pro Technology Development Limited (stock code: 3823), the Shares of which is listed on the main board of Stock Exchange, with effect from 13 February 2019.

Save as disclosed above, there is no other change in Directors' information subsequent to the date of the third quarterly report for the nine months ended 30 September 2018, as required to Rule 17.59 of the GEM Listing Rules.

DIRECTORS' SERVICE CONTRACT

Each non-executive Director (including independent non-executive Director) has entered into a service contract with the Company for an initial term of two years and will continue thereafter until terminated in accordance with the terms of the agreement and is subject to retirement by rotation and re-election pursuant to the Bye-Laws.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

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

As at 31 December 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 or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which would have: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 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 (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY

Name of director	Nature of interests	Number or attributable number of shares		Approximate percentage or attributable percentage of shareholding (%)
		Long position	Short position	
Shares				
Mr. Chan Wing Chung	Personal	420,000	–	0.01
Mr. Shum Lok To	Personal	3,000,000	–	0.08
Share Options				
Mr. Chan Wing Chung	Personal	32,000,000 (Note 1)	–	0.88
Mr. Wong Kui Shing Danny	Personal	33,000,000 (Note 1)	–	0.91
Mr. Tso Ping Cheong Brian	Personal	2,000,000 (Note 1)	–	0.06

Note:

- (1) The interest relates to share options granted on 22 August 2017 by the Company to the Directors. The share options are exercisable at a subscription price of HK\$0.34 for each Share during the period from 1 September 2017 to 21 August 2027.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules or to be entered in the register referred to in the SFO.

Save as disclosed above, at no time during the year was the Company, its subsidiaries or its other associated corporations a party to any arrangement to enable the Directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporation.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2018, the following persons/corporations (other than the Directors or chief executive of the Company) had interests or short positions in the Shares and the underlying Shares of the Company, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO:

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of director	Capacity of interests	Number of issued ordinary shares held	Number of underlying shares	Approximate percentage to total issued shares at 31 December 2018
Mr. Allan Yap	Beneficial owner	–	721,290,000	19.93%
Best Fine International Limited ("Best Fine") (Note 1)	Beneficial owner	–	400,000,000	11.05%
China Huarong Asset Management Co., Limited ("CHAMCL") (Note 1)	Interest of controlled corporation	–	400,000,000	11.05%
China Huarong International Holdings Limited ("CHIHL") (Note 1)	Interest of controlled corporation	–	400,000,000	11.05%
Right Select International Limited ("Right Select") (Note 1)	Interest of controlled corporation	–	400,000,000	11.05%
Fullink Management Limited (Note 2)	Beneficial owner	265,300,000	–	7.33%
Mr. Tsang, Michael Manheem (Note 2)	Interest of controlled corporation	265,300,000	–	7.33%

Notes:

- These interests represented the interests in underlying shares in respect of the convertible bonds and warrants issued by the Company to Best Fine pursuant to the conditional placing agreement dated 16 May 2017 (as supplemented on 19 May 2017). For details, please refer to the Company announcements dated 16 May 2017 and 19 May 2017.

Best Fine is wholly-owned by Right Select which is wholly-owned by CHIHL which is ultimately owned by CHAMCL. Therefore, under the SFO, Right Select are deemed to be interested in all the underlying Shares held by Best Fine and CHIHL and CHAMCL are deemed to be interested in all the underlying Shares in which Right Select had interest or deemed interest.

- These shares are held by Fullink Management Limited, which is beneficially owned as to 40% by Mr. Tsang, Michael Manheem.

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any parties (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules ("the Code"). The Company had made specific enquiry of the Directors and all the Directors confirmed that they had complied with the required standard set out in the Code during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the controlling shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the Year.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the Year are set out in note 39 to the consolidated financial statements and none of them constituted a connected transaction as defined under the GEM Listing Rules.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its Shares listed on GEM nor did the Company or any of its subsidiaries purchase or sell any of the Company's listed securities during the Year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

SHARE OPTION SCHEME

The Company has adopted the share option scheme on 21 September 2009 (the "Scheme") under which certain selected classes of participants (including, among others, fulltime employees) may be granted options to subscribe for the shares. The principal terms of the share option scheme are summarised in the paragraph headed "Share Option Scheme" in appendix V to the prospectus of the Company dated 29 September 2009.

During the Year, there was no share option granted, exercised, cancelled or lapsed under the Scheme and no share option remained outstanding at the beginning and at the end of the Year under the Scheme.

Save as disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Directors, there is sufficient public float of the issued Shares as required under the GEM Listing Rules throughout the Year and as at the date of the Report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITOR

Deloitte Touche Tohmatsu (“Deloitte”) has resigned as the auditor of the Company with effect from 4 March 2019. The Company has appointed Zhonghui Anda CPA Limited (“Zhonghui”) as the auditor with effect from 4 March 2019 to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

The consolidated financial statements for the Year were audited by the independent auditor of the Company, Zhonghui, who shall retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. A resolution for the re-appointment of Zhonghui as the independent auditor of the Company will be proposed at the forthcoming AGM.

Save as disclosed above, there is no other change in auditors in past three years.

On behalf of the Board
Wong Kui Shing Danny
Executive Director

Hong Kong, 31 March 2019



TO THE SHAREHOLDERS OF LARRY JEWELRY INTERNATIONAL COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Larry Jewelry International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 96, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

(1) Opening balances and corresponding figures

The Group recorded certain property, plant and equipment of HK\$5,250,000 and prepayments of HK\$5,734,000 in the consolidated statement of financial position as at 31 December 2017. We have not yet obtained sufficient appropriate audit evidence to satisfy ourselves as to the nature, existence and recoverability of these property, plant and equipment and prepayments.

For the year ended 31 December 2018, the Group recorded depreciation of HK\$2,609,000 and impairment loss of HK\$2,632,000 on these property, plant and equipment, and impairment loss of HK\$5,734,000 on the prepayments. We have not yet obtained sufficient and appropriate audit evidence to satisfy ourselves as to this depreciation and impairment loss, and whether these expenses should be recognised in current or prior year.

(2) Prepayments, deposits and other receivables

Included in the prepayment, deposits and other receivables in the consolidated statement of financial position as at 31 December 2018 are other receivables of approximately HK\$137,559,000. We have not yet obtained sufficient and satisfactory audit evidence to satisfy ourselves as to the nature, existence and recoverability of these other receivables. There are no other satisfactory audit procedures that we could perform to satisfy ourselves as to whether the other receivable balances of HK\$137,559,000 as at 31 December 2018 are fairly stated and the related disclosure in the consolidated financial statements.

(3) Other borrowings and bonds

Included in the other borrowings in the consolidated statement of financial position as at 31 December 2018 are borrowing of HK\$30,000,000. We have not yet obtained sufficient and satisfactory audit evidence to satisfy ourselves as to the existence of this borrowing. There are no other satisfactory audit procedures including direct confirmation that we could perform to satisfy ourselves as to whether the other borrowing balances of HK\$30,000,000 as at 31 December 2018 are fairly stated and the related disclosure in the consolidated financial statements.

During the year ended 31 December 2018, the Group recorded settlement of bonds of HK\$30,000,000 to a bond holder. In the absence of sufficient appropriate audit evidence to verify this settlement, we were unable to ascertain the balance of the bonds. There are no other satisfactory audit procedures including direct confirmation that we could perform to satisfy ourselves as to the completeness of the outstanding liabilities in relation to the bonds as at 31 December 2018 and the related disclosure in the consolidated financial statements.

Any adjustments to the figures as described above might have a consequential effect on the Group's financial performance and cash flows for the years ended 31 December 2017 and 2018, the financial positions of the Group as at 31 December 2017 and 2018, and the related disclosures thereof in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred operating cash outflows of approximately HK\$96,810,000 for the year ended 31 December 2018. In addition, after excluding gain of fair value changes of convertible bonds of HK\$187,877,000 and gain on fair value changes of warrants of HK\$228,466,000, the Group incurred a loss of approximately HK\$164,504,000 for the year ended 31 December 2018. This condition indicates a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion Section and the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Intangible assets

Refer to Note 19 to the consolidated financial statements

The Group is required to test the amount of intangible assets for impairment. This impairment test is significant to our audit because the balance of intangible assets of HK\$112,726,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures for those using value-in-use calculations included, among others:

- Assessing the identification of the related cash generating units;
- Assessing the competence, independence and integrity of the external valuer engaged by the Group;
- Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation models;
- Assessing the arithmetical accuracy of the value-in-use calculations;
- Comparing the actual cash flows with the cash flow projections;
- Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates); and
- Checking impairment data to supporting evidence.

Our audit procedures for those using fair value less costs of disposal included, among others:

- Assessing the competence, independence and integrity of the external valuer engaged by the Group;
- Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation models;
- Checking key assumptions and input data in the valuation models to supporting evidence;

- Checking arithmetical accuracy of the valuation models; and
- Assessing the disclosure of fair value measurement in the consolidated financial statements

We consider that the Group's impairment test for intangible assets is supported by the available evidence.

2. Inventories

Refer to Note 21 to the consolidated financial statements

The Group tested the amount of inventories for impairment. This impairment test is significant to our audit because the balance of inventories of HK\$235,877,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures in relation to impairment test on jewelry products included, among others:

- Assessing the competence, independence and integrity of the external valuer engaged by the Group;
- Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation models;
- Checking key assumptions and input data in the valuation models to supporting evidence;
- Checking arithmetical accuracy of the valuation models;
- Assessing the disclosure in the consolidated financial statements

Our audit procedures in relation to impairment test on pharmaceutical and health food products included, among others:

- Assessing the Group's procedures on ordering and holding of inventory;
- Evaluating the Group's impairment assessment;
- Assessing the marketability of the inventory;
- Assessing the aging of the inventory;
- Assessing the net realisable values of the inventory; and
- Assessing the disclosure in the consolidated financial statements

We consider that the Group's impairment test for inventories is supported by the available evidence.

3. Convertible bonds

Refer to Note 29 to the consolidated financial statements

The Group measured its convertible bonds at fair value with the changes in fair value recognised in the consolidated profit or loss. This fair value measurement is significant to our audit because the balance of convertible bonds of HK\$209,729,000 as at 31 December 2018 and the gain on fair value changes of convertible bonds of HK\$187,877,000 for the year then ended are material to the consolidated financial statements. In addition, the Group's fair value measurement involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

- Assessing the competence, independence and integrity of the external valuer engaged by the Group;
- Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

INDEPENDENT AUDITOR'S REPORT

- Checking key assumptions and input data in the valuation model to supporting evidence;
- Checking arithmetical accuracy of the valuation model; and
- Assessing the disclosure of the fair value measurement in the consolidated financial statements.

We consider that the Group's fair value measurement of the convertible bonds are supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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. As described in the Basis for Qualified Opinion Section above, we were unable to obtain sufficient appropriate evidence about the opening balances and corresponding figures, prepayments, deposits and other receivables, other borrowings and bonds. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Sze Lin Tang

Audit Engagement Director

Practising Certificate Number P03614

Hong Kong, 31 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	8	384,647	434,748
Cost of sales		(290,943)	(282,521)
Gross profit		93,704	152,227
Interest income		53	40
Other Income		1,877	775
Other gains and losses	10	(9,887)	(15,340)
Impairment loss recognised in respect of goodwill		–	(105,258)
Impairment loss recognised in respect of intangible assets		(6,079)	(70,523)
Loss on redemption of convertible bonds		(47)	(23,290)
Gain/(loss) on fair value changes of convertible bonds		187,877	(240,159)
Gain/(loss) on fair value changes of warrants		228,466	(190,046)
Selling and distribution expenses		(147,398)	(148,583)
Administrative expenses		(63,159)	(172,046)
Finance costs	11	(34,588)	(19,149)
Profit/(loss) before tax		250,819	(831,352)
Income tax refund/(paid)	12	1,020	14,783
Profit/(loss) for the year attributable to owners of the Company	13	251,839	(816,569)
Other comprehensive income/(expense) for the year			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on financial liabilities designated at fair value through profit or loss attributable to change in credit risk		(290)	–
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(3,534)	13,448
Total comprehensive income/(expense) for the year attributable to owners of the Company		248,015	(803,121)
Earnings/(loss) per share	17		
Basic (HK cents)		7.00	(24.21)
Diluted (HK cents)		1.44	(24.21)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment	18	54,271	67,659
Intangible assets	19	112,726	118,805
Deferred tax assets	20	1,653	1,400
Deposits	23	18,448	17,758
		187,098	205,622
Current assets			
Inventories	21	235,877	325,662
Trade receivables	22	7,562	13,685
Prepayments, deposits and other receivables	23	159,582	92,828
Tax recoverable		–	244
Pledged bank deposits	24	9,041	17,912
Restricted bank deposit		328	–
Bank balances and cash		32,776	193,392
		445,166	643,723
Current liabilities			
Trade payables	25	90,534	80,579
Other payables and accruals	26	68,342	37,131
Tax payable		898	839
Derivative financial instruments	27	–	324
Bank and other borrowings	28	40,000	18,178
Convertible bonds	29	209,729	–
Bonds	30	–	73,226
Warrants	30	–	228,466
		409,503	438,743
Net current assets		35,663	204,980
Total assets less current liabilities		222,761	410,602

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current liabilities			
Deferred tax liabilities	20	18,380	19,384
Convertible bonds — due after one year	29	–	542,282
		18,380	561,666
Net assets/(liabilities)			
		204,381	(151,064)
EQUITY			
Capital and reserves			
Share capital	31	36,184	33,784
Share premium and reserves		168,197	(184,848)
Total equity/(deficit)			
		204,381	(151,064)

The consolidated financial statements on pages 35 to 96 were approved and authorised for issue by the board of directors on 31 March 2019 and are signed on its behalf by:

Approved by:

Chan Wing Chung
Director

Wong Kui Shing Danny
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Capital contribution reserve HK\$'000 Note (i)	Merger reserve HK\$'000 Note (ii)	Contributed surplus HK\$'000 Note (iii)	Capital reserve HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017	33,704	350,520	3,988	(830)	629,505	-	-	(20,077)	(407,980)	588,830
Loss for the year	-	-	-	-	-	-	-	-	(816,569)	(816,569)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	13,448	-	13,448
Total comprehensive (expense)/ income for the year	-	-	-	-	-	-	-	13,448	(816,569)	(803,121)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	60,507	-	-	60,507
Issue of new shares upon exercise of share options	80	4,088	-	-	-	-	(1,448)	-	-	2,720
Lapse share options	-	-	-	-	-	-	(362)	-	362	-
At 31 December 2017	33,784	354,608	3,988	(830)	629,505	-	58,697	(6,629)	(1,224,187)	(151,064)
At 1 January 2018, as previously stated	33,784	354,608	3,988	(830)	629,505	-	58,697	(6,629)	(1,224,187)	(151,064)
Effect of change in accounting policies (note 3)	-	-	-	-	-	(2,292)	-	-	2,292	-
At 1 January 2018, as restated	33,784	354,608	3,988	(830)	629,505	(2,292)	58,697	(6,629)	(1,221,895)	(151,064)
Profit for the year	-	-	-	-	-	-	-	-	251,839	251,839
Fair value gain on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	-	-	-	-	-	(290)	-	-	-	(290)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	(3,534)	-	(3,534)
Total comprehensive (expense)/ income for the year	-	-	-	-	-	(290)	-	(3,534)	251,839	248,015
Issue of shares upon conversion of convertible bond	2,400	105,030	-	-	-	-	-	-	-	107,430
At 31 December 2018	36,184	459,638	3,988	(830)	629,505	(2,582)	58,697	(10,163)	(970,056)	204,381

Notes:

- (i) The capital contribution reserve represents the amount arising from a bonus issue of shares of the Company by way of capitalising the Company's retained profits and deemed capital contribution from a substantial shareholder.
- (ii) The merger reserve mainly represents the sum of difference between the nominal value of the ordinary shares issued (a) by the Company and the share capital of Full Join Limited ("Full Join") and (b) Full Join and the share capital of Larry Jewelry Development Limited acquired through the shares swap pursuant to the reorganisation.
- (iii) The contributed surplus represents credit arising from cancellation of share capital and share capital premium pursuant to the capital reorganisation, details of which are set out in note 31(i) of the consolidated financial statements for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
OPERATING ACTIVITIES		
Profit/(loss) before tax	250,819	(831,352)
Adjustments for:		
Depreciation of property, plant and equipment	19,313	22,108
Interest income	(53)	(40)
Finance costs	34,588	19,149
Provision for onerous contracts	26,960	8,000
Provision/(reversal) of allowance for inventories	46,274	(4,488)
Impairment loss recognised in respect of goodwill	–	105,258
Impairment loss recognised in respect of intangible assets	6,079	70,523
Impairment loss recognised in respect of property, plant and equipment	4,122	15,488
Impairment loss recognised in respect of prepayment	5,734	–
Equity-settled share-based payment expenses	–	60,507
(Gain)/loss on disposal of property, plant and equipment	(207)	41
Net loss on redemption of convertible bonds	47	23,290
(Gain)/loss on fair value changes of convertible bonds	(187,877)	240,159
(Gain)/loss on fair value changes of warrants	(228,466)	190,046
Loss on fair value changes of derivative financial instruments	–	288
Operating cash flows before movements in working capital	(22,667)	(81,023)
Change in inventories	34,973	28,710
Change in trade receivables	5,778	(2,484)
Change in prepayments, deposits and other receivables	(126,293)	(8,929)
Change in trade payables	11,305	18,118
Change in bills payable	–	(1,499)
Change in other payables and accruals	(101)	3,150
Cash used in operations	(97,005)	(43,957)
Income tax refund/(paid)	195	(754)
NET CASH USED IN OPERATING ACTIVITIES	(96,810)	(44,711)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(10,202)	(15,713)
Proceeds on disposal of property, plant and equipment	299	194
Interest received	53	40
Payment of derivative financial instruments	(322)	–
Placement of pledged bank deposits	8,714	(1,455)
Change in restricted bank deposit	(328)	–
NET CASH USED IN INVESTING ACTIVITIES	(1,786)	(16,934)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
FINANCING ACTIVITIES		
Interest paid	(19,749)	(19,815)
New borrowings raised	30,000	197,000
Repayment of borrowings	(8,178)	(186,939)
Payment on redemption of convertible bonds	(21,000)	(150,000)
Proceeds from issue of convertible bonds	–	310,000
(Repayment)/proceeds from issue of bonds with warrants	(100,000)	100,000
Proceeds from exercise of share options	–	2,720
Expense attributable to issue of bonds	–	(2,771)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(118,927)	250,195
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(217,523)	188,550
CASH AND CASH EQUIVALENTS AT 1 JANUARY	257,942	66,830
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(543)	2,562
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39,876	257,942
Represented by:		
Bank balances and cash	32,776	193,392
Cash held by securities broker (included in "prepayments, deposits and other receivables")	7,100	64,550
	39,876	257,942

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

Larry Jewelry International Company Limited ("Larry Jewelry") (the "Company") is a public limited company incorporated in Bermuda and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are design and retailing of jewelry products and sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs ("pharmaceutical and health food products").

The consolidated financial statements are presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company.

2. GOING CONCERN BASIS

The Group incurred operating cash outflows of approximately HK\$96,810,000 for the year ended 31 December 2018. In addition, after excluding gain on fair value changes of convertible bonds of HK\$187,877,000 and gain on fair value changes of warrants of HK\$228,466,000, the Group incurred a loss of approximately HK\$164,504,000 for the year ended 31 December 2018. This condition indicates a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial liabilities as and when they fall due given that the financial support of the substantial shareholder, at a level sufficient to finance the working capital requirements of the Group. The substantial shareholder has agreed to provide adequate funds to the Group.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on the going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements, to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

A. HKFRS 9 (2014) "Financial Instruments"

HKFRS 9 (2014) has been applied in the consolidated amounts reported in the financial statements as follows:

	As at 1 January 2018 HK\$'000
Decrease in capital reserve	2,292
Decrease in accumulated losses	(2,292)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the derivative financial instruments and convertible bonds which are carried at their fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

(c) Translation on consolidation

The results and financial position of all the group entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss.

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 recognised in profit or loss during the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives or annual rates are as follows:

Leasehold land and building	Over the shorter of the term of the relevant lease of the relevant land on which building is erected, or 5%
Leasehold improvements	20% or the term of the lease, if shorter
Furniture and fixtures	20%–25%
Motor vehicles	20%–50%
Plant and machinery	20%–30%
Computer equipment	30%–50%

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Leases

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Inventories

Inventories of jewelry products are stated at the lower of cost and net realisable value. Cost is calculated using specific identification basis for gem-set jewellery and weighted average for other inventories. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventories of pharmaceutical and health food products are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition and derecognition of financial instruments (Continued)

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

- Financial assets at amortised cost;

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

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

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Convertible bonds containing debt and derivative components

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative.

The Group has designated the convertible bonds with debt component, holders' conversion option and issuer's early redemption option as financial liabilities at fair value through profit or loss. At the date of initial recognition and at the end of subsequent reporting periods, the convertible bonds are measured at fair value with changes in fair value recognised directly in profit or loss in the period in which they arise. Transaction costs relating to the issuance of the convertible bonds is charged to profit or loss.

Bonds with warrants

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

The warrants are classified as derivative liabilities and measured at fair value at initial recognition and at subsequent reporting dates.

On the initial recognition of the bonds and warrants, the gross proceeds are allocated to the bonds and warrants taking into account the relative fair values of the bonds and warrants at initial recognition.

Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the bonds using the effective interest method. Transaction costs allocated to the warrants are recognised as expenses when incurred.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; 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.

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

Other revenue

Interest income is recognised using the effective interest method.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the at the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged in profit or loss represents contributions payable by the Group to the funds.

(c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 differences between the carrying amounts of assets and liabilities in the 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 and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

- (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 Company or of a parent of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

- (b) An entity is related to the Group (reporting entity) if any of the following conditions applies:
- (i) The entity and the Company 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).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, inventories, deferred tax assets, tax recoverable and receivables, 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 any impairment loss. 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.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the controlling shareholder at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to the consolidated financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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) Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the recoverable amount of the CGUs to which intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU with key assumptions on budgeted sales, royalty rate, terminal growth rate and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, further impairment loss may arise. As at 31 December 2018, the carrying amount of intangible assets is HK\$112,726,000 (net of accumulated impairment losses of HK\$122,459,000) (2017: HK\$118,805,000 (net of accumulated impairment losses of HK\$116,380,000)). Details of the recoverable amount calculation are disclosed in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(b) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

(c) Fair values of convertible bonds

As described in notes 29, the directors of the Company use their judgment in selecting an appropriate valuation technique for financial liabilities not quoted in an active market. The fair values of the convertible bonds are estimated by binomial options pricing model with the key inputs of discount rate, share price, dividend yield and expected volatility. The carrying amounts of convertible bonds as at 31 December 2018 is HK\$209,729,000 (2017: HK\$542,282,000). The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of the convertible bonds.

(d) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(e) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flows, a material impairment loss may arise.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are denominated in the functional currencies of the Group entities. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

As at 31 December 2018, the carrying amount of the respective financial assets as stated in the consolidated statement of financial position best represents the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related companies are closely monitored by the directors.

The credit risk on cash and bank balances and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk on trade receivables by geographical locations is mainly in the PRC (2017: the PRC) which accounted for 73.6% (2017: 64.5%) of the total trade receivables balance at 31 December 2018. The Group also has concentration of credit risk as 58.33% (2017: 18%) and 90.48% (2017: 48.1%) of the total trade receivables was due from the Group's largest customer and five largest customers respectively. For the year ended 31 December 2018, the five largest debtors, which are engaged in sales of pharmaceutical and health food products in the PRC and Macau (2017: sales of pharmaceutical and health food products in the PRC), have good repayment history and credit quality with reference to the track records of these debtors under internal assessment by the Group.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 30 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

The Group's incurred operating cash outflows of approximately HK\$96,810,000 for the year ended 31 December 2018. The Group is exposed to liquidity risk if it is not able to raise sufficient fund to meet its financial obligations. The directors of the Company have given careful consideration to the future liquidity of the Group, details of which are set out in note 2.

The maturity analysis of the Group's financial liabilities is as follows:

At 31 December 2018

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Total HK\$'000	Carrying amount HK\$'000
Trade payables	90,534	–	90,534	90,534
Other payables and accruals	26,651	–	26,651	26,651
Bank and other borrowings	44,080	–	44,080	40,000
Convertible bonds	226,713	–	226,713	209,729

At 31 December 2017

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Total HK\$'000	Carrying amount HK\$'000
Trade payables	80,579	–	80,579	80,579
Other payables and accruals	20,489	–	20,489	20,489
Bank and other borrowings	19,863	–	19,863	18,178
Bonds	104,500	–	104,500	73,226
Foreign exchange forward contacts	324	–	324	324
Convertible bonds	22,252	326,689	348,941	542,282
Warrants	–	–	–	228,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate other borrowing (note 28).

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate other borrowing (note 28). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and Hong Kong Dollar Best Lending Rate arising from the Group's bank borrowing.

The Group currently does not have an interest rate hedging policy. However, management conducts periodic review of interest rate exposures and will consider hedging significant interest rate risk should the need arise.

In the opinion of the directors of the Company, the cash flow interest rate risk is considered insignificant and therefore no sensitivity analysis is presented.

(e) Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	220,049	315,417
Financial liabilities:		
Financial liabilities at fair value through profit or loss		
Held for trading	–	228,790
Designated as such upon initial recognition	209,729	542,282
Financial liabilities at amortised cost	164,479	195,726

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities at amortised cost as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Disclosures of level in fair value hierarchy at 31 December 2018:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements:				
Financial liabilities				
Convertible bonds	–	–	209,729	209,729

Disclosures of level in fair value hierarchy at 31 December 2017:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurements:				
Financial liabilities				
Derivative financial instruments	–	324	–	324
Convertible bonds	–	–	542,282	542,282
Warrants	–	–	228,466	228,466
Total	–	324	770,748	771,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Reconciliation of assets measured at fair value based on level 3:

	Convertible bonds HK\$'000	Warrants HK\$'000	Total HK\$'000
At 1 January 2017	133,412	–	133,412
Issuance of warrants	–	38,420	38,420
Issuance of convertible bonds	310,000	–	310,000
Redemption of convertible bonds	(150,000)	–	(150,000)
Loss on redemption	23,290	–	23,290
Accrued coupon interest	(14,579)	–	(14,579)
Total gains recognised in profit or loss [#]	240,159	190,046	430,205
At 31 December 2017	542,282	228,466	770,748
# Include loss for liabilities held at end of reporting period	240,159	190,046	430,205
	Convertible bonds HK\$'000	Warrants HK\$'000	Total HK\$'000
At 1 January 2018	542,282	228,466	770,748
Coupon interest paid/payable	(16,583)	–	(16,583)
Conversion	(107,430)	–	(107,430)
Redemption	(21,000)	–	(21,000)
Loss on redemption	47	–	47
Total (gains)/loss recognised in profit or loss [#]	(187,877)	(228,466)	(416,343)
in the other comprehensive income	290	–	290
At 31 December 2018	209,729	–	209,729
# Include gain for liabilities held at end of reporting period	(164,406)	–	(164,406)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 2 fair value measurements

Description	Valuation technique	Inputs	Fair value as at 31 December	
			2018 HK\$'000	2017 HK\$'000
Derivative — Foreign currency forward contracts	Discounted cash flow	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties	–	(324)

Level 3 fair value measurements

Description	Valuation technique	Unobservable input and range	Effect on fair value for increase of inputs	Fair value as at 31 December	
				2018 HK\$'000	2017 HK\$'000
Convertible bonds	Binomial Options Pricing Model	Discount rate of 14.77%–14.83% (2017: 14.60%–14.64%)	Decrease	(209,729)	(542,282)
Warrants	Black-Scholes Pricing Model	Expected volatility of 45.85%	Increase	–	(228,466)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. REVENUE

Revenue represents revenue arising on retailing of jewelry products and sales of pharmaceutical and health food products for the year. An analysis of the Group's revenue for the year is as follows:

	2018 HK\$'000	2017 HK\$'000
Retailing of jewelry products	120,441	151,328
Sales of pharmaceutical and health food products	264,206	283,420
Revenue from contracts with customers	384,647	434,748

Disaggregation of revenue from contracts with customers:

For the year ended 31 December 2018	Retailing of jewelry products HK\$'000	Sales of pharmaceutical and health food products HK\$'000	2018 Total HK\$'000
Geographical markets			
Hong Kong	14,210	170,801	185,011
PRC	–	60,143	60,143
Macau	–	33,262	33,262
Singapore	106,231	–	106,231
	120,441	264,206	384,647

For the year ended 31 December 2017	Retailing of jewelry products HK\$'000	Sales of pharmaceutical and health food products HK\$'000	2017 Total HK\$'000
Geographical markets			
Hong Kong	32,604	178,389	210,993
Macau	–	40,284	40,284
PRC	–	64,747	64,747
Singapore	118,724	–	118,724
	151,328	283,420	434,748

All revenue is recognised at a point in time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. REVENUE (CONTINUED)

Retailing of jewelry products

The Group designs and sells jewelry products to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally cash sales and without credit terms.

Sales of pharmaceutical and health food products

The Group sells pharmaceutical and health food products to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally cash sales and without credit terms.

9. SEGMENT INFORMATION

Information reported to the directors of the Group, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on the locations of the operations and types of goods. This is also the basis upon which the Group is arranged and organised. The Group's operating segments under HKFRS 8 "Operating Segments" are operations located in Hong Kong, Singapore, Macau and the People's Republic of China (the "PRC"). The revenue generated by each of the operating segments is derived from retailing of jewelry products and sales of pharmaceutical and health food products. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The Group is engaged in retailing of jewelry products under the brand name of Larry Jewelry and sales of pharmaceutical and health food products under the brand name of Tung Fong Hung ("東方紅"). The Group's operations are currently organised into five operating and reportable segments.

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

1. Retail jewelry in Hong Kong — Retailing of jewelry products in Hong Kong
2. Retail jewelry in Singapore — Retailing of jewelry products in Singapore
3. Sales of pharmaceutical and health food products in Hong Kong — Sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in Hong Kong
4. Sales of pharmaceutical and health food products in Macau — Sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in Macau
5. Sales of pharmaceutical and health food products in the PRC — Sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's revenue and results by operating and reportable segments.

Year ended 31 December 2018

	Retail jewelry in Hong Kong HK\$'000	Retail jewelry in Singapore HK\$'000	Sales of pharmaceutical and health food products in Hong Kong HK\$'000	Sales of pharmaceutical and health food products in Macau HK\$'000	Sales of pharmaceutical and health food products in the PRC HK\$'000	Total HK\$'000
REVENUE						
External sales and segment revenue	14,210	106,231	170,804	33,262	60,140	384,647
RESULTS						
Segment (loss)/profit excluding impairment loss recognised in respect of goodwill, intangible assets and property, plant and equipment	(26,096)	3,981	(78,313)	1,671	(5,369)	(104,126)
Impairment loss recognised in respect of intangible assets	(2,278)	(3,801)	-	-	-	(6,079)
Impairment loss recognised in respect of property, plant and equipment	(1,490)	-	(2,632)	-	-	(4,122)
Segment (loss)/profit	(29,864)	180	(80,945)	1,671	(5,369)	(114,327)
Unallocated other income						53
Unallocated corporate expenses						(16,615)
Loss on redemption of convertible bonds						(47)
Gain on fair value changes of convertible bonds						187,877
Gain on fair value changes of warrants						228,466
Finance costs						(34,588)
Profit before tax						250,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2017

	Retail jewelry in Hong Kong HK\$'000	Retail jewelry in Singapore HK\$'000	Sales of pharmaceutical and health food products in Hong Kong HK\$'000	Sales of pharmaceutical and health food products in Macau HK\$'000	Sales of pharmaceutical and health food products in the PRC HK\$'000	Total HK\$'000
REVENUE						
External sales and segment revenue	32,604	118,724	178,389	40,284	64,747	434,748
RESULTS						
Segment (loss)/profit excluding impairment loss recognised in respect of goodwill, intangible assets and property, plant and equipment	(17,195)	3,197	(28,288)	629	(8,326)	(49,983)
Impairment loss recognised in respect of goodwill	–	–	(62,794)	(11,477)	(30,987)	(105,258)
Impairment loss recognised in respect of intangible assets	(3,658)	(13,399)	(13,105)	–	(40,361)	(70,523)
Impairment loss recognised in respect of property, plant and equipment	(985)	(405)	(4,527)	–	(9,571)	(15,488)
Segment loss	(21,838)	(10,607)	(108,714)	(10,848)	(89,245)	(241,252)
Unallocated other income						40
Unallocated corporate expenses						(117,496)
Loss on redemption of convertible bonds						(23,290)
Loss on fair value changes of convertible bonds						(240,159)
Loss on fair value changes of warrants						(190,046)
Finance costs						(19,149)
Loss before tax						(831,352)

Segment loss represents the loss from each segment without allocation of unallocated other income (which mainly includes bank interest income of head office), unallocated corporate expenses (which mainly include central administration costs, auditor's remuneration, directors' emoluments, equity-settled share-based payment expenses, legal and professional fee, exchange loss and operating expenses of inactive companies), loss on redemption of convertible bonds, gain/(loss) on fair value changes of convertible bonds, gain/(loss) on fair value changes of warrants and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments.

Year ended 31 December 2018

	Retail jewelry in Hong Kong HK\$'000	Retail jewelry in Singapore HK\$'000	Sales of pharmaceutical and health food products in Hong Kong HK\$'000	Sales of pharmaceutical and health food products in Macau HK\$'000	Sales of pharmaceutical and health food products in the PRC HK\$'000	Total HK\$'000
Segment assets	36,466	98,946	228,048	31,204	59,835	454,499
Bank balances and cash						33,108
Unallocated assets						144,657
Consolidated assets						632,264
Segment liabilities	14,496	11,598	140,890	3,712	26,684	197,380
Unallocated liabilities						230,503
Consolidated liabilities						427,883

Year ended 31 December 2017

	Retail jewelry in Hong Kong HK\$'000	Retail jewelry in Singapore HK\$'000	Sales of pharmaceutical and health food products in Hong Kong HK\$'000	Sales of pharmaceutical and health food products in Macau HK\$'000	Sales of pharmaceutical and health food products in the PRC HK\$'000	Total HK\$'000
Segment assets	50,549	148,472	494,012	40,856	84,244	818,133
Bank balances and cash						12,205
Unallocated assets						19,007
Consolidated assets						849,345
Segment liabilities	5,357	21,450	104,116	3,142	36,497	170,562
Unallocated liabilities						829,847
Consolidated liabilities						1,000,409

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (Continued)

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

- all assets are allocated to operating and reportable segments other than certain deposits and prepayments, deferred tax assets as well as assets of the headquarters and certain bank balances and cash; and
- all liabilities are allocated to operating and reportable segments other than certain accruals, tax payable, deferred tax liabilities, bank and other borrowings, convertible bonds, bonds, warrants as well as other payables of the headquarters. Certain bank and other borrowings is classified as unallocated corporate liability because it is managed centrally by the treasury function of the Group.

Other segment information

Year ended 31 December 2018

	Retail jewelry in Hong Kong HK\$'000	Retail jewelry in Singapore HK\$'000	Sales of pharmaceutical and health food products in Hong Kong HK\$'000	Sales of pharmaceutical and health food products in Macau HK\$'000	Sales of pharmaceutical and health food products in the PRC HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment results and segment assets:							
Addition of property, plant and equipment	2,258	265	4,763	1,676	1,240	-	10,202
Depreciation of property, plant and equipment	1,146	1,122	15,132	430	1,483	-	19,313
Loss/(gain) on disposal of property, plant and equipment	5	11	(223)	-	-	-	(207)
Operating lease payments in respect of rented premises:							
— minimum lease payments	7,001	10,524	36,332	3,361	2,717	2,600	62,535
— contingent rentals	-	-	1,295	3,192	-	-	4,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. SEGMENT INFORMATION (CONTINUED)

Other segment information (Continued)

Year ended 31 December 2017

	Retail jewelry in Hong Kong HK\$'000	Retail jewelry in Singapore HK\$'000	Sales of pharmaceutical and health food products in Hong Kong HK\$'000	Sales of pharmaceutical and health food products in Macau HK\$'000	Sales of pharmaceutical and health food products in the PRC HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment results and segment assets:							
Addition of property, plant and equipment	42	770	7,752	3	7,146	-	15,713
Depreciation of property, plant and equipment	1,613	1,720	15,850	571	2,354	-	22,108
Loss/(gain) on disposal of property, plant and equipment	1	2	(47)	5	80	-	41
Operating lease payments in respect of rented premises:							
— minimum lease payments	10,048	10,634	37,221	6,791	2,493	4,201	71,388
— contingent rentals	-	-	859	2,045	-	-	2,904

Geographic information

The Group's operations are located in Hong Kong, Singapore, Macau and the PRC.

Information about the Group's revenue from external customers is presented based on the location of operations.

Information about the Group's non-current assets is presented based on the geographical location of assets.

	Revenue from external customers		Non-current assets	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000 (Note)	2017 HK\$'000 (Note)
Hong Kong	185,014	210,993	133,128	148,874
Singapore	106,231	118,724	8,896	13,560
Macau	33,262	40,284	18,323	17,078
The PRC	60,140	64,747	6,650	6,952
	384,647	434,748	166,997	186,464

Note: Non-current assets excluded deferred tax assets and deposits as at 31 December 2018 and 2017.

Information about major customers

No single customer contributed over 10% of the total sales of the Group for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. OTHER GAINS AND LOSSES

	2018 HK\$'000	2017 HK\$'000
Impairment loss recognised in respect of property, plant and equipment	4,122	15,488
Loss on fair value changes of derivative financial instruments	–	288
(Gain)/loss on disposal of property, plant and equipment	(207)	41
Net exchange gain	238	(477)
Impairment loss recognised in respect of prepayments	5,734	–
	9,887	15,340

11. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest on bank and other borrowings	4,345	2,201
Effective interest expense on bonds (note 30)	30,243	16,948
	34,588	19,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. INCOME TAX CREDIT

	2018 HK\$'000	2017 HK\$'000
Current year:		
Singapore Corporate Income Tax	–	126
Macau Complementary Tax	570	466
	570	592
Under(over)provision in prior years:		
Hong Kong Profits Tax	–	(22)
Singapore Corporate Income Tax	(40)	(126)
Macau Complementary Tax	(294)	21
PRC Enterprise Income Tax (“EIT”)	–	230
	(334)	103
Deferred tax — current year (note 20)	(1,256)	(15,325)
Withholding tax (Note)	–	(153)
	(1,020)	(14,783)

Note: Withholding tax mainly represents withholding tax of 10% on intra-group license income from the PRC.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2018 as the Company and its subsidiaries incurred tax losses.

Singapore Corporate Income Tax is calculated at 17% in accordance with the relevant laws and regulations in Singapore for both years.

Macau Complementary Tax is calculated at the maximum progressive rate of 12% on the estimated assessable profit for both years.

Under the Enterprise Income Tax Law (the “EIT Law”) of the PRC and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in the PRC is 25% for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. INCOME TAX CREDIT (CONTINUED)

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

	2018 HK\$'000	2017 HK\$'000
Profit/(loss) before tax	250,819	(831,352)
Tax at domestic income tax rate applicable to profits of taxable entities in the countries concerned (Note)	40,858	(144,267)
Tax effect of expenses not deductible for tax purpose	27,266	123,122
Tax effect of income not taxable for tax purpose	(72,007)	(863)
Tax effect of tax losses not recognised	3,401	7,659
Under/(over)provision in respect of prior years	(334)	103
Withholding tax	–	(153)
Others	(204)	(384)
Tax credit for the year	(1,020)	(14,783)

Note: As the Group operates in several different tax jurisdictions during the year, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.

13. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2018 HK\$'000	2017 HK\$'000
Profit/(loss) for the year has been arrived at after crediting/(charging):		
Directors' emoluments, including retirement benefits scheme contributions (note 14)	1,739	17,824
Other staff costs	64,424	69,612
Equity-settled share-based payment expenses, excluding directors	–	46,930
Contributions to retirement benefit scheme, excluding directors	6,849	6,718
Total staff costs	73,012	141,084
Depreciation of property, plant and equipment	19,313	22,108
Gain/(loss) on disposal of property, plant and equipment	(207)	41
Auditors' remuneration	2,200	4,000
Cost of inventories recognised as expense	290,943	282,521
Provision/(reversal) of allowance for inventories (included in cost of sales)	46,274	(4,488)
Operating lease payments in respect of rented premises		
— minimum lease payments	62,535	71,388
— contingent rentals	4,487	2,904
Provision for onerous contracts (included in "selling and distribution expenses")	26,960	8,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable GEM Listing Rules and the Hong Kong Companies Ordinance, is as follows:

2018

	Chan Wing Chung HK\$'000	Wong Kui Shing, Danny HK\$'000	Total HK\$'000
(A) Executive directors:			
Fees	1,050	360	1,410
Contributions to retirement benefit scheme	18	18	36
Sub-total	1,068	378	1,446

The executive directors' emoluments shown above were for their services in connection with management of the affairs of the Company and the Group.

	Sezto WaiLing, Virginia HK\$'000 (Note (i))	Total HK\$'000
(B) Non-executive director:		
Fees	8	8
Contributions to retirement benefit scheme	–	–
Sub-total	8	8

The non-executive directors' emoluments shown above were for her services as director of the Company or its subsidiaries.

	Ong Chi King HK\$'000	Shum Lok To HK\$'000	Tso Ping Cheong, Brian HK\$'000	Total HK\$'000
(C) Independent non-executive directors:				
Fees	90	90	90	270
Contributions to retirement benefit scheme	5	5	5	15
Sub-total	95	95	95	285

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total				1,739
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED) 2017

	Hon Kin Wai HK\$'000 (Note (ii))	Luk Kee Yan, Kelvin HK\$'000 (Note (iii))	Chan Wing Chung HK\$'000	Wong Kui Shing, Danny HK\$'000	Total HK\$'000
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(A) Executive directors:

Fees	182	218	900	360	1,660
Salaries	1,224	–	–	–	1,224
Performance related bonus	150	–	–	–	150
Equity-settled share-based payment expenses	–	–	5,974	5,974	11,948
Contributions to retirement benefit scheme	15	6	18	18	57
Compensation for the loss of office as a director in connection with the management of the affairs of any member of the Group	428	–	–	–	428
Sub-total	1,999	224	6,892	6,352	15,467

The executive directors' emoluments shown above were for their services in connection with management of the affairs of the Company and the Group.

	Sezto Wai Ling, Virginia HK\$'000 (Note (i))	Ngai Ki Yee, May HK\$'000 (Note (ii))	Total HK\$'000
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(B) Non-executive directors:

Fees	240	182	422
Contributions to retirement benefit scheme	12	9	21
Sub-total	252	191	443

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

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14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED) 2017

	Ong Chi King HK\$'000	Shum Lok To HK\$'000	Tso Ping Cheong, Brian HK\$'000	Total HK\$'000
(C) Independent non-executive directors:				
Fees	90	90	90	270
Equity-settled share-based payment expenses	543	543	543	1,629
Contributions to retirement benefit scheme	5	5	5	15
Sub-total	638	638	638	1,914
The independent non-executive directors' emoluments shown above were for their services as directors of the Company.				
Total				17,824

Notes:

- (i) Resigned on 12 January 2018.
- (ii) Resigned on 4 October 2017.
- (iii) Resigned on 20 April 2017.

No directors waived any emoluments for the years ended 31 December 2018 and 2017.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

During the years ended 31 December 2018 and 2017, except for mentioned above, no emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two directors (2017: two director), details of whose remuneration are set out in note 14 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other benefits	2,437	420
Equity-settled share-based payment expenses	–	17,924
	2,437	18,344

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
Nil–HK\$1,000,000	2	–
HK\$1,000,001–HK\$1,500,000	1	–
HK\$5,500,001–HK\$6,000,000	–	2
HK\$6,000,001–HK\$6,500,000	–	1
	3	3

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16. DIVIDENDS

No dividend was paid, declared or proposed for ordinary shareholders of the Company during 2018 and 2017, nor has any dividend been proposed since the end of the reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share is based on the following:

	2018 HK\$'000	2017 HK\$'000
Earnings/(loss)		
Earnings/(loss) for the purpose of calculating basic earnings per share	251,839	(816,569)
Gain on fair value changes of convertible bonds	(187,830)	–
Earnings/(loss) for the purpose of calculating diluted earnings per share	64,009	(816,569)
	2018 '000	2017 '000
Number of shares		
Issue ordinary shares at 1 January	3,378,393	3,370,393
Effect of exercise of share option	–	2,514
Effect of conversion of convertible loans	220,493	–
Weighted average number of ordinary shares for the purpose of calculation basic earnings per share	3,598,886	3,372,907
Effect of dilutive potential ordinary shares arising from convertible loans outstanding	851,124	–
	4,450,010	3,372,907

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Computer equipment HK\$'000	Total HK\$'000
COST							
At 1 January 2017	39,024	32,325	8,242	1,125	20,732	2,225	103,673
Additions	–	7,197	1,163	–	7,347	6	15,713
Disposals/write-offs	–	(2,509)	(710)	(20)	(50)	(25)	(3,314)
Exchange adjustments	–	315	439	1	646	34	1,435
At 31 December 2017	39,024	37,328	9,134	1,106	28,675	2,240	117,507
Additions	–	7,470	868	475	1,347	42	10,202
Disposals/write-offs	–	(4,821)	(303)	(663)	–	–	(5,787)
Exchange adjustments	–	(66)	(134)	(1)	(697)	66	(832)
At 31 December 2018	39,024	39,911	9,565	917	29,325	2,348	121,090
DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	452	7,980	3,826	256	1,869	333	14,716
Provided for the year	1,265	10,803	2,155	501	6,324	1,060	22,108
Eliminated on disposals/write-offs	–	(2,382)	(630)	(20)	(40)	(7)	(3,079)
Impairment loss recognised in profit or loss	–	3,409	1,234	52	10,432	361	15,488
Exchange adjustments	–	197	315	1	96	6	615
At 31 December 2017	1,717	20,007	6,900	790	18,681	1,753	49,848
Provided for the year	1,265	10,464	1,392	234	5,528	430	19,313
Eliminated on disposals/ write-offs	–	(4,821)	(211)	(663)	–	–	(5,695)
Impairment loss recognised in profit or loss	–	4,053	33	–	–	36	4,122
Exchange adjustments	–	(63)	(130)	(1)	(641)	66	(769)
At 31 December 2018	2,982	29,640	7,984	360	23,568	2,285	66,819
CARRYING VALUES							
At 31 December 2018	36,042	10,271	1,581	557	5,757	63	54,271
At 31 December 2017	37,307	17,321	2,234	316	9,994	487	67,659

For impairment assessment, the Group's certain property, plant and equipment are allocated to groups of CGUs comprising (i) retail of jewelry products in Hong Kong and Singapore ("CGUs of Jewelry"), and, (ii) sales of pharmaceutical and health food products in Hong Kong, Macau and the PRC ("CGUs of Tung Fong Hung"). Details of the impairment assessment on the recoverable amounts of the CGUs of Tung Fong Hung are set out in note 19. The Group recognised impairment loss of property, plant and equipment of HK\$4,122,000 for the year ended 31 December 2018.

The Group carried out reviews of the recoverable amount of the property, plant and equipment of Retail jewelry in Hong Kong segment as a result of the expectation of continuing loss making of this segment. The reviews led to the recognition of an impairment loss of HK\$1,409,000 (2017: HK\$985,000), that has been recognised in consolidated profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. INTANGIBLE ASSETS

	Brand name of Larry Jewelry HK\$'000	Brand name of Tung Fong Hung HK\$'000	Total HK\$'000
COST			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	79,000	156,185	235,185
IMPAIRMENT			
At 1 January 2017	45,857	–	45,857
Impairment loss recognised in the year	17,057	53,466	70,523
At 31 December 2017	62,914	53,466	116,380
Impairment loss recognised in the year	6,079	–	6,079
At 31 December 2018	68,993	53,466	122,459
CARRYING VALUES			
At 31 December 2018	10,007	102,719	112,726
At 31 December 2017	16,086	102,719	118,805

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19. INTANGIBLE ASSETS (CONTINUED)

(a) Brand name of Larry Jewelry

The Group carried out reviews of the recoverable amount of the brand name of Larry Jewelry in 2018 as a result of the deterioration of the markets of the Group's products. These assets are used in the Group's retail jewelry in Hong Kong and Singapore segments. The review led to the recognition of an impairment loss of HK\$6,079,000 (2017: HK\$17,057,000). The recoverable amount of the brand name of Larry Jewelry of HK\$10,007,000 (2017: HK\$16,086,000) has been determined on the basis of fair value less costs of disposal using discounted cash flow method (level 3 fair value measurements). The discount rate used was 14% (2017: 14.6%).

(b) Brand name of Tung Fong Hung

The intangible assets were purchased as part of the acquisition of Tung Fong Hung and were recognised at their fair value at the date of acquisition. The intangible asset comprises initial recognition of brand name of Tung Fong Hung amounting to HK\$156,185,000 (comprising of HK\$93,175,000, HK\$17,030,000 and HK\$45,980,000 for Hong Kong, Macau and the PRC respectively).

The brand name has no legal life. The directors of the Company are of the opinion that the Group has the ability to use the brand name continuously. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which support that the brand name has no foreseeable limit to the period over which the services provided are expected to generate net cash flows for the Group.

As a result, the brand name is considered by management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The brand name will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

The recoverable amount of the CGUs of Tung Fong Hung as of 31 December 2018 was based on its value in use and was determined with assistance of GW Financial Advisory Services Limited, an independent professional qualified valuer not connected to the Group. The calculation used cash flow projections based on financial budgets approved by management covering a five year period, using discount rates of 12.64% for Hong Kong, 12.74% for Macau and 16.42% for the PRC. Cash flows beyond the five-year period were extrapolated using a ranging from 3%–8% growth rate in considering the economic conditions of the markets. No impairment loss was recognised for the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. DEFERRED TAX (ASSETS)/LIABILITIES

The following are the major deferred tax liabilities/(assets) recognised and movements thereon during the current and prior years.

	Fair value adjustments on business combinations HK\$'000	Accelerated tax depreciation HK\$'000	Depreciation in excess of related tax depreciation allowance HK\$'000	Loss available for offset against future taxable profit HK\$'000	Total HK\$'000
At 1 January 2017	34,410	455	(1,317)	(252)	33,296
Credit to profit or loss	(15,095)	(147)	(83)	–	(15,325)
Exchange differences	–	13	–	–	13
At 31 December 2017 and 1 January 2018	19,315	321	(1,400)	(252)	17,984
Credit to profit or loss	(1,003)	–	(253)	–	(1,256)
Exchange differences	–	(1)	–	–	(1)
At 31 December 2018	18,312	320	(1,653)	(252)	16,727

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 HK\$'000	2017 HK\$'000
Deferred tax assets	(1,653)	(1,400)
Deferred tax liabilities	18,380	19,384
	16,727	17,984

As at 31 December 2018, the Group has unused tax losses of approximately HK\$319,990,000 (2017: HK\$297,848,000). No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$23,556,000 (2017: HK\$20,951,000) that will expire between 2019 to 2023 (2017: 2018 to 2022). Other losses may be carried forward indefinitely.

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For the year ended 31 December 2018

21. INVENTORIES

	2018 HK\$'000	2017 HK\$'000
Jewelry products	109,079	127,991
Pharmaceutical and health food products	126,798	197,671
	235,877	325,662

22. TRADE RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade receivables	7,562	13,685

Retail sales are normally settled in cash or by credit card with the settlement from the corresponding banks or other financial institutions within 7 to 14 days. Receivables from retail sales relate to sales campaigns jointly organised with shopping malls, which are collected from the respective shopping malls within 30 to 90 days.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2018 HK\$'000	2017 HK\$'000
1–30 days	6,689	9,984
31–60 days	288	516
61–90 days	44	713
91–180 days	243	1,434
181–365 days	245	1,038
Over 365 days	53	–
	7,562	13,685

Management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit risk and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. TRADE RECEIVABLES (Continued)

	Current HK\$'000	Less than 30 days past due HK\$'000	Over 30 days but less than 90 days past due HK\$'000	Over 90 days past due HK\$'000	Total HK\$'000
At 31 December 2018					
Weighted average expected loss rate	–	–	–	–	–
Receivable amount	7,498	10	2	52	7,562
Loss allowance	–	–	–	–	–
At 31 December 2017					
Weighted average expected loss rate	–	–	–	–	–
Receivable amount	10,706	725	2,212	42	13,685
Loss allowance	–	–	–	–	–

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Goods and service tax ("GST") input tax in Singapore	275	308
Rental and utilities deposits	26,011	24,842
Prepayments to suppliers and others	3,331	19,761
Other tax recoverable	663	89
Other receivables	137,559	–
Cash held by securities broker	7,100	64,550
Others	3,091	1,036
	178,030	110,586
Less: Non-current portion	18,448	17,758
	159,582	92,828

The non-current portion mainly represents the rental and other utilities deposits paid for the lease of the rented premises (including office, warehouses and retail shops). The amount is expected to be refunded after twelve months at the end of each of the reporting period, and is therefore classified as non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits and bank balances carry interest at market rates which range from 0.31% to 1.2% (2017: 0.01% to 0.91%) per annum. Certain bank deposits are pledged to the banks as security for guarantee of the settlement in favour of the certain suppliers of the Group and various credit facilities which will expire within a year of granting the facilities; accordingly, they are classified as current assets.

The Group's pledged bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2018 HK\$'000	2017 HK\$'000
United States Dollar ("USD")	7,835	8,457
Singapore Dollar ("SGD")	1,206	–
	9,041	8,457

25. TRADE PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade payables	90,534	80,579

The credit period on trade payables ranged from 30 to 90 days.

The following is an aged analysis of trade payables, based on the invoice date, at the end of reporting period.

	2018 HK\$'000	2017 HK\$'000
0–30 days	15,101	26,238
31–60 days	8,572	26,714
61–90 days	4,575	5,692
91–180 days	32,149	12,729
181–365 days	29,684	9,206
Over 365 days	453	–
	90,534	80,579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

26. OTHER PAYABLES AND ACCRUALS

	2018 HK\$'000	2017 HK\$'000
GST output tax in Singapore	2,592	2,639
Advance payment received from customers	–	2,698
Accrued expenses	23,407	19,614
Accrued coupon interest	7,902	3,254
Provision for onerous contracts	31,184	8,000
Value-added tax and other tax payables	13	51
Other payables	3,244	875
	68,342	37,131

27. DERIVATIVE FINANCIAL INSTRUMENTS

Major terms of the outstanding foreign currency forward contracts of the Group are as follows:

At 31 December 2017

Notional amount	Maturity	Exchange rates
6 contracts to buy USD1,451,298 in total	16 January 2018 to 27 February 2018	USD1:SGD1.3680 to 1.3860
2 contracts to buy HK\$124,017 in total	29 January 2018 to 21 February 2018	HK\$1:SGD0.1749 to 0.1753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. BANK AND OTHER BORROWINGS

	2018 HK\$'000	2017 HK\$'000
Bank borrowing (unsecured)	–	6,178
Other borrowing (unsecured)	40,000	12,000
	40,000	18,178
The carrying amounts of the above borrowings are repayable*:		
Within one year	40,000	13,998
Within a period of more than one year but not exceeding two years	–	2,059
Within a period of more than two year but not exceeding five years	–	2,121
	40,000	18,178
Less: Amount containing a repayable on demand clause and therefore shown under current liabilities	(40,000)	(18,178)
Amount shown under non-current liabilities	–	–

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2017, bank borrowing is repayable by sixty equal monthly instalments and interest bearing at Hong Kong Dollar Best Lending Rate less 2% per annum, for which effective interest rate is 3.0% per annum. Such borrowing is unsecured and guaranteed by subsidiaries of the Company.

In addition, the Group also pledged bank deposit of HK\$9,041,000 (2017: HK\$8,457,000) (note 24) to the bank in order to obtain various other short-term facilities totaling of HK\$20,500,000. As at 31 December 2017 and 2018, such bank facilities had not yet been utilised. Such bank facilities are secured and guaranteed by the subsidiaries of the Company.

As at 31 December 2018, HK\$10,000,000 included in other borrowing is unsecured, bears fixed interest rate of 12.5% per annum and repayable on 7 November 2018.

As at 31 December 2018, HK\$30,000,000 included in other borrowing is unsecured, bears interest rate of 6% plus HSBC Best Lending Rate per annum and repayable on 13 September 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. CONVERTIBLE BONDS

- (a) On 31 July 2017, the Company issued convertible bonds ("Convertible Bonds I") with principal amount of HK\$100,000,000 to an independent third party. Pursuant to the terms, Convertible Bonds I are convertible for the whole or part of the principal amounts at any time by the holder after the date of the issuance and the Company has an option to early redeem Convertible Bonds I at par plus accrued outstanding coupon interest at any time before its maturity date. Any Convertible Bonds I not converted will be redeemed on 31 July 2019. Convertible Bonds I bear coupon interest at 6.5% per annum, payable quarterly in arrears, and with maturity period of two years.

The initial conversion price is of HK\$0.25 per conversion share, which is subject to certain adjustments prescribed in the convertible bonds agreement. Details of the terms are set out in the circular dated 10 July 2017 issued by the Company.

The Company has designated the debt component and derivative components of holder's conversion option and issuer's early redemption option as financial liabilities at FVTPL and initially recognised Convertible Bonds I at fair value. The fair value of Convertible Bonds I is determined by aggregating the fair value of (i) present value of contractual future cash flows, represented by the 6.5% coupon payments per annum and principal amount of HK\$100,000,000, discounted at the effective interest rate, taking into account the credit standing of the Company and the remaining time to maturity; and (ii) conversion options and issuer's early redemption option. The valuation of Convertible Bonds I (level 3 fair value measurements) is determined with the assistance of GW Financial Advisory Services Limited, an independent qualified professional valuer not connected to the Group.

In subsequent periods, such Convertible Bonds I are measured at fair value with changes in fair values recognised in profit or loss. Transaction costs relating to the issuance of the convertible bonds are charged to profit or loss.

Convertible Bonds I is measured at fair value using the binomial options pricing model at initial recognition and at the end of each subsequent reporting period. The inputs into the model as at 31 December 2017 and 31 December 2018 are as follows:

	31 December 2018	31 December 2017
Share price	HK\$0.04	HK\$0.49
Conversion price	HK\$0.25	HK\$0.25
Risk-free rate	1.82%	1.29%
Expected volatility	41.48%	47.99%
Dividend yield	0%	0%
Option life	0.58 years	1.58 years
Discount rate	14.77%	14.60%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. CONVERTIBLE BONDS (Continued)

- (b) On 4 September 2017, the Company issued convertible bonds ("Convertible Bonds II") with principal amount of HK\$210,000,000 to independent third parties. Pursuant to the terms, Convertible Bonds II are convertible for the whole or part of the principal amounts at any time by the holder after the date of the issuance and the Company has an option to early redeem the Convertible Bonds II at par plus accrued outstanding coupon interest at any time before its maturity date. Any Convertible Bonds II not converted will be redeemed on 4 September 2019. Convertible Bonds II bear coupon interest at 7.5% per annum, payable quarterly in arrears, and with maturity period of two years.

The initial conversion price is of HK\$0.3 per conversion share, which is subject to certain adjustments prescribed in the convertible bonds agreement. Details of the terms are set out in the circular dated 10 July 2017 issued by the Company.

The conversion options are not settled by exchange of a fixed amount of cash or another asset for a fixed number of the Company's own shares. The Company has designated the debt component and derivative components of holder's conversion option and issuer's early redemption option as financial liabilities at FVTPL and initially recognised Convertible Bonds II at fair value. The fair value of Convertible Bonds II is determined by aggregating the fair value of (i) present value of contractual future cash flows, represented by the 7.5% coupon payments per annum and remaining principal amount, discounted at the effective interest rate, taking into account the credit standing of the Company and the remaining time to maturity; and (ii) conversion options and issuer's early redemption option. The valuation of Convertible Bonds II (level 3 fair value measurements) is determined with the assistance of GW Financial Advisory Services Limited, an independent qualified professional value not connect to the Group.

In subsequent periods, such Convertible Bonds II are measured at fair value with changes in fair values recognised in profit or loss. Transaction costs relating to the issuance of the convertible bonds are charged to profit or loss.

Convertible Bonds II is measured at fair value using the binomial options pricing model at initial recognition and at the end of each subsequent reporting period. The inputs into the model as at 31 December 2017 and 31 December 2018 are as follows:

	31 December 2018	31 December 2017
Share price	HK\$0.04	HK\$0.49
Conversion price	HK\$0.30	HK\$0.30
Risk-free rate	1.82%	1.31%
Expected volatility	40.37%	49.31%
Dividend yield	0%	0%
Option life	0.68 years	1.68 years
Discount rate	14.83%	14.64%

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29. CONVERTIBLE BONDS (Continued)

(b) (Continued)

The movement of Convertible Bonds I and II for the year is set out as below:

	Convertible Bonds I HK\$'000	Convertible Bonds II HK\$'000	Total HK\$'000
At 1 January 2017	–	–	–
Issuance of convertible bonds	100,000	210,000	310,000
Coupon interest paid/payable	(2,742)	(5,135)	(7,877)
Loss arising on changes in fair value	99,828	140,331	240,159
At 31 December 2017 and 1 January 2018	197,086	345,196	542,282
Coupon interest paid/payable	(6,500)	(10,083)	(16,583)
Conversion on 26 January 2018	–	(107,430)	(107,430)
Early redemption on 6 August 2018	–	(21,000)	(21,000)
Loss on redemption on 6 August 2018	–	47	47
Gain arising on changes in fair value	(93,623)	(93,964)	(187,587)
At 31 December 2018	96,963	112,766	209,729
Analysed as at 31 December 2018:			
Current liabilities	96,963	112,766	209,729
Analysed as at 31 December 2017:			
Non-current liabilities	197,086	345,196	542,282

On 19 January 2018 and 2 February 2018, Convertible Bonds II with principal amounts of HK\$12,000,000 and HK\$60,000,000 were converted into 40,000,000 and 200,000,000 ordinary shares of HK\$0.01 each at the conversion price of HK\$0.3 per share respectively. Approximately HK\$2,400,000 and HK\$105,030,000 were recorded in share capital and share premium respectively.

30. BONDS/WARRANTS

On 31 July 2017, the Company issued one-year bonds in an aggregate principal amount of HK\$100,000,000 (the "Bonds") together with detachable warrants with subscription rights of HK\$100,500,000 (the "Warrants") to an independent third party. Upon full exercise of the subscription rights attaching to the Warrants, a total of 670,000,000 Warrant Shares would be issued.

The Bonds bear coupon interest at 6.0% per annum, payable quarterly in arrears, and with maturity period of one year. In the terms of the Bonds, the Company has an option to early redeem the Bonds at par plus accrued outstanding coupon interest, at any time before the maturity date of the Bonds.

The Warrants' subscription price is initially HK\$0.15 per warrant share, subject to adjustments in accordance with the instrument creating the Warrants, and the subscription period is one year from the date of its issuance.

The principal terms of the Bonds and Warrants were disclosed in a circular issued by the Company dated 10 July 2017.

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30. BONDS/WARRANTS (Continued)

The Bonds are classified as financial liabilities at amortised cost.

The subscription options of the Warrants are not settled by exchange of a fixed amount of cash or another asset for a fixed number of the Company's own shares. Therefore, the Warrants are classified as derivative liabilities and measured at fair value at initial recognition and at subsequent reporting dates.

On the initial recognition of the Bonds and Warrants, the aggregate consideration of HK\$100,000,000 is allocated to the Bonds and Warrants, taking into account the fair values of the Bonds and the Warrants. At initial recognition, HK\$61,580,000 is allocated to the Bonds and HK\$38,420,000 is allocated to the Warrants. Transaction costs of HK\$2,771,000 and HK\$1,729,000, respectively, are allocated to the Bonds and Warrants. Transaction costs allocated to the Bonds are recognised in the carrying amount of the Bonds and amortised over the period of the Bonds using the effective interest method whereas transaction costs allocated to the Warrants are charged to profit or loss immediately.

The warrants issued by the Company are measured at fair value at initial recognition. At the end of each reporting date, the warrants are measured at fair value, with changes in fair value being recognised in profit or loss. The movements of the carrying amount of the Bonds and fair value of the derivative liabilities represented by the Warrants during the year are as below:

	Bonds HK\$'000	Warrants HK\$'000	Total HK\$'000
At 1 January 2017	–	–	–
Issuance of Bonds and Warrants	61,580	38,420	100,000
Transaction cost	(2,771)	–	(2,771)
Coupon interest paid/payable	(2,531)	–	(2,531)
Effective interest expense	16,948	–	16,948
Loss arising on changes in fair value	–	190,046	190,046
At 31 December 2017 and 1 January 2018	73,226	228,466	301,692
Repayment of Bonds	(100,000)	–	(100,000)
Coupon interest paid/payable	(3,469)	–	(3,469)
Effective interest expense	30,243	–	30,243
Gain arising on changes in fair value	–	(228,466)	(228,466)
At 31 December 2018	–	–	–

The fair value of warrants as at 31 December 2017 is categorised as Level 3 under the fair value hierarchy set out in HKFRS 13 "Fair Value Measurement". There were no transfers in or out of Level 3 during the year ended 31 December 2017.

As at 31 December 2018, the bonds were fully redeemed and the warrants were expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	10,000,000,000	100,000
Issued and fully paid:		
At 1 January 2017	3,370,393,070	33,704
Issue of shares upon exercise of share options	8,000,000	80
At 31 December 2017 and 1 January 2018	3,378,393,070	33,784
Issue of shares upon conversion of convertible bond	240,000,000	2,400
At 31 December 2018	3,618,393,070	36,184

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, convertible bonds, bonds and warrants and accrued coupon interest (included in "other payables and accruals"), net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a share option scheme (the "SO Scheme") on 21 September 2009 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include any persons being employees, directors, professionals, customers, suppliers, agents and consultants of the Company and its subsidiaries. The SO Scheme will remain in force for 10 years from the Adoption Date.

The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options to any eligible participant in excess of this limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all share options to be granted must not represent more than 10% of the nominal amount of all the issued shares of the Company (the "10% Limit") as at the date on which trading in the shares of the Company on the Stock Exchange first commenced. The Company may seek approval from its shareholders in a general meeting to refresh the 10% Limit at any time in accordance with the GEM Listing Rules.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, are subject to the approval of the independent non-executive directors (excluding any independent non-executive director who is a proposed grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within a 12-month period, are subject to the shareholders' approval in a general meeting in accordance with the GEM Listing Rules.

The grant of share options is effective upon payment of a remittance of HK\$1 in total by the grantee. The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Company's shares.

During the year ended 31 December 2018, no share options (2017: 337,000,000) were granted to directors and employees of the Group under the SO Scheme.

All share-based compensation will be settled in equity. The Group has no legal or construction obligation to repurchase or settle the options other than issuing the Company's ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Details of specific categories of options are as follows:

Date of grant	Vesting date	Exercisable period	Exercise price
22 August 2017	1 September 2017	1 September 2017 to 21 August 2027	HK\$0.34

Categories of participants	Exercise price HK\$	Outstanding at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2018
Directors	0.34	67,000,000	-	-	-	67,000,000
Employees	0.34	194,000,000	-	-	-	194,000,000
Consultants	0.34	66,000,000	-	-	-	66,000,000
		327,000,000	-	-	-	327,000,000

Categories of participants	Exercise price HK\$	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2017
Directors	0.34	-	75,000,000	(8,000,000)	-	67,000,000
Employees	0.34	-	196,000,000	-	(2,000,000)	194,000,000
Consultants	0.34	-	66,000,000	-	-	66,000,000
		-	337,000,000	(8,000,000)	(2,000,000)	327,000,000

The fair value of the options granted on 22 August 2017 is approximately HK\$60,507,000, which is fully recognised as an expense during the year ended 31 December 2017.

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

Share price at date of grant	HK\$0.34
Exercise price	HK\$0.34
Expected volatility	51.80%
Expected life	10 years
Risk-free rate	1.58%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price movement over the previous three months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases for office, warehouse and retail shop premises which fall due as follows:

	2018 HK\$'000	2017 HK\$'000
Within one year	55,157	44,616
In the second to fifth years inclusive	36,906	30,126
	92,063	74,742

Operating lease payments represent rentals paid or payable by the Group for certain of its office, warehouse and retail shop. Leases are negotiated for a lease term of one to four years (2017: one to four years) and rentals are fixed throughout the lease period.

There are certain lease arrangements for rented retail shop premises, according to which the Group is committed to pay minimum guaranteed amounts and additional monthly payments determined based on monthly sales levels.

There are concessionaire arrangements for concessionaire stores/counters within the shopping malls according to which the Group is committed to pay either minimum guaranteed amounts or concessionaire fees that are based on prescribed rates of corresponding sales level.

Most concessionaire arrangement are negotiated for a term of one years.

34. CAPITAL COMMITMENTS

	2018 HK\$'000	2017 HK\$'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of plant and machinery	–	732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Bank and other borrowings HK\$'000	Convertible bonds HK\$'000	Bonds HK\$'000	Warrants HK\$'000	Accrued interest (included in "other payables and accruals") HK\$'000	Total HK\$'000
At 1 January 2017	8,117	133,412	–	–	3,758	145,287
Changes in cash flows	7,860	160,000	58,809	38,420	(17,614)	247,475
Non-cash changes						
Loss on fair value changes	–	240,159	–	190,046	–	430,205
Loss on redemption	–	23,290	–	–	–	23,290
Accrued interest	–	(14,579)	(2,531)	–	17,110	–
Finance costs	2,201	–	16,948	–	–	19,149
At 31 December 2017	18,178	542,282	73,226	228,466	3,254	865,406
At 1 January 2018	18,178	542,282	73,226	228,466	3,254	865,406
Changes in cash flows	21,822	(21,000)	(103,469)	–	(16,280)	(118,927)
Non-cash changes						
Gain on fair value changes	–	(187,877)	–	(228,466)	–	(416,343)
Fair value gain on financial liabilities designated at fair value through profits or loss attributable to change in credit risk	–	290	–	–	–	290
Conversion	–	(107,430)	–	–	–	(107,430)
Loss on redemption	–	47	–	–	–	47
Accrued interest	(4,345)	(16,583)	–	–	20,928	–
Finance costs	4,345	–	30,243	–	–	34,588
At 31 December 2018	40,000	209,729	–	–	7,902	257,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS

(a) Related party balance and transaction

There was no transaction with related party during the years ended 31 December 2018 and 2017 nor outstanding balance with related party as at 31 December 2018 and 2017.

(b) Compensation of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company either directly or indirectly.

The remuneration of directors and other members of key management during the year is as follows:

	2018 HK\$'000	2017 HK\$'000
Short-term employee benefits	1,688	17,732
Post-employment benefits	51	93
	1,739	17,825

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK\$'000	2017 HK\$'000
Non-current assets		
Investments in subsidiaries	111,374	337,086
Current assets		
Prepayments and other receivables	122,344	72,415
Amounts due from subsidiaries	33,024	224,528
Bank balances	10,152	12,205
	165,520	309,148
Current liabilities		
Accruals	11,777	8,421
Amounts due to subsidiaries	106,470	54,932
Other borrowing	10,000	12,000
Convertible bonds	209,729	–
Bonds	–	73,226
Warrants	–	228,466
	337,976	377,045
Net current liabilities	(172,456)	(67,897)
Total assets less current liabilities	(61,082)	269,189
Non-current liability		
Convertible bonds — due after one year	–	542,282
Net liabilities	(61,082)	(273,093)
Capital and reserves		
Share capital	36,184	33,784
Share premium and reserves	(97,266)	(306,877)
Total deficit	(61,082)	(273,093)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Movement in the Company's reserves

	Share premium HK\$'000	Capital contribution reserve HK\$'000 Note (i)	Contributed surplus HK\$'000 Note (ii)	Capital reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017	350,520	3,988	635,194	-	-	(631,771)	357,931
Loss and total comprehensive expense for the year	-	-	-	-	-	(727,955)	(727,955)
Recognition of equity-settled share-based payments	-	-	-	-	60,507	-	60,507
Issue of shares upon exercise of share options	4,088	-	-	-	(1,448)	-	2,640
Lapse of share options	-	-	-	-	(362)	362	-
At 31 December 2017	354,608	3,988	635,194	-	58,697	(1,359,364)	(306,877)
Effect of change in accounting policy (note 3)	-	-	-	(2,291)	-	2,291	-
At 1 January 2018, as restated	354,608	3,988	635,194	(2,291)	58,697	(1,357,073)	(306,877)
Profit and total comprehensive income for the year	-	-	-	-	-	104,871	104,871
Fair value gain on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	-	-	-	(290)	-	-	(290)
Issue of shares upon conversion of convertible bond	105,030	-	-	-	-	-	105,030
At 31 December 2018	459,638	3,988	635,194	(2,581)	58,697	(1,252,202)	(97,266)

Notes:

- (i) The capital contribution reserve represented the amount arising from a bonus issue of shares of the Company by way of capitalising the Company's retained profits and deemed capital contribution from a substantial shareholders.
- (ii) Contributed surplus of the Company represented (i) the sum of difference between the net assets value of the subsidiary acquired and the nominal value of the share capital of the Company issued in exchange thereof pursuant to the reorganisation and (ii) effect of capital reorganisation as detailed in note 31(i) of the consolidated financial statements for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ registration and type of legal entity	Particulars of issued share capital/paid-up registered capital	Percentage of equity interest attributable to the Company		Proportion of voting power held by the Company		Principal activity and place of operation
			2018	2017	Directly	Indirectly	
Larry Jewelry Development Limited	Hong Kong, limited liability company	9,999 ordinary shares of HK\$1 each	100%	100%	–	100%	Design and sale of jewelry products in Hong Kong
Larry Jewelry Limited	Hong Kong, limited liability company	50,000,000 ordinary shares of HK\$1 each	100%	100%	–	100%	Design and sales of jewelry products in Hong Kong
Larry Jewelry (1967) Pte. Ltd.	Singapore, limited liability company	13,800,000 ordinary shares of SGD1 each	100%	100%	–	100%	Design and sales of jewelry products in Singapore
New Larry Jewelry Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK\$1 each	100%	100%	–	100%	Provision of administrative and management services in Hong Kong
Vera Jewels Company Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK\$1 each	100%	100%	–	100%	Design and sales of jewelry products in Hong Kong
Tung Fong Hung Property Investment Limited	Hong Kong, limited liability company	1 ordinary share of HK\$1 each	100%	100%	–	100%	Property holding in Hong Kong
TFH Management Limited	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	100%	–	100%	Provision of management, advisory and marketing services in Hong Kong
TFH Manufacturing Company Limited	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	100%	–	100%	Manufacturing and processing of Chinese medicine, health products and foodstuffs in Hong Kong
Tung Fong Hung Medicine Company, Limited	Hong Kong, limited liability company	10,011 ordinary shares of HK\$0.1 each	100%	100%	–	100%	Retailing of Chinese medicine and foodstuff and holding the trademark in Hong Kong
Tung Fong Hung Foods Limited	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	100%	–	100%	Distribution of Chinese medicine and health food in Hong Kong
Red More Foods Limited	Hong Kong, limited liability company	1 ordinary share of HK\$1 each	100%	100%	–	100%	Retailing of foodstuffs in Hong Kong

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name of subsidiary	Place of incorporation/ registration and type of legal entity	Particulars of issued share capital/paid-up registered capital	Percentage of equity interest attributable to the Company		Proportion of voting power held by the Company		Principal activity and place of operation
			2018	2017	Directly	Indirectly	
Time Fortune International Limited	Hong Kong, limited liability company	10 ordinary shares of HK\$1 each	100%	100%	–	100%	Retailing of Chinese medicine and foodstuffs in Hong Kong
Tung Fong Hung Outlet Limited	Hong Kong, limited liability company	1 ordinary share of HK\$1 each	100%	100%	–	100%	Provision of retail operator in Hong Kong
Tung Fong Hung Medicine (Retail) Limited	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	100%	–	100%	Provision of retail operator in Hong Kong
Cosmos Profit International Limited	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	100%	–	100%	Provision of retail operator in Hong Kong
TFH Consultation Services Limited	Hong Kong, limited liability company	2 ordinary shares of HK\$1 each	100%	100%	–	100%	Management services in Hong Kong
Exalt Investment Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK\$1 each	100%	100%	–	100%	Investment holding of trademark in the PRC
Tung Fong Hung Medicine Company (Macau) Limited	Macau, limited liability company	100,000 ordinary shares of MOP1 each	100%	100%	–	100%	Retailing of Chinese medicine and foodstuffs in Macau
Time Fortune (Macau) Limited	Macau, limited liability company	25,000 ordinary shares of MOP1 each	100%	100%	–	100%	Retailing of Chinese medicine and foodstuffs in Macau
廣州市東方紅保健品有限公司	The PRC, limited liability company	HK\$10,000,000	100%	100%	–	100%	Retailing and distributing dried seafood, luxury food products and herbal medicine in the PRC
廣東正美醫藥有限公司	The PRC, limited liability company	RMB2,000,000	100%	100%	–	100%	Retailing and distributing dried seafood, luxury food products and herbal medicine in the PRC

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2019.