



米蘭站 →  
Milan Station

®



# ANNUAL 2017 REPORT

米蘭站控股有限公司

MILAN STATION HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Stock Code: 1150

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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Ms. Cao Huijuan  
Mr. Hu Bo

#### Independent Non-executive Directors

Mr. Chan Chi Hung  
Mr. Tou Kin Chuen  
Mr. Choi Kam Yan, Simon

### AUDIT COMMITTEE

Mr. Tou Kin Chuen  
*(Chairman of audit committee)*  
Mr. Chan Chi Hung  
Mr. Choi Kam Yan, Simon

### REMUNERATION COMMITTEE

Mr. Tou Kin Chuen  
*(Chairman of remuneration committee)*  
Mr. Chan Chi Hung  
Mr. Hu Bo

### NOMINATION COMMITTEE

Mr. Hu Bo  
*(Chairman of nomination committee)*  
Mr. Chan Chi Hung  
Mr. Tou Kin Chuen

### AUDITORS

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

### COMPANY SECRETARY

Mr. Yung Kai Wing

### AUTHORISED REPRESENTATIVES

Mr. Hu Bo  
Mr. Yung Kai Wing

### REGISTERED OFFICE

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1-3, 4th Floor, Tower 1  
South Seas Centre, No. 75 Mody Road  
Kowloon, Hong Kong

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited  
Royal Bank House – 3rd Floor  
24 Shedden Road  
P.O. Box 1586  
Grand Cayman KY1-1110  
Cayman Islands

## Corporate Information

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716  
17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wan Chai, Hong Kong

### COMPANY'S WEBSITE

[www.milanstation.com.hk](http://www.milanstation.com.hk)

### STOCK CODE

1150

### PRINCIPAL BANKERS

#### HONG KONG

OCBC Wing Hang Bank Limited  
DBS Bank (Hong Kong) Limited  
China CITIC Bank International Limited  
China Construction Bank (Asia) Corporation Limited

#### THE PRC

China Construction Bank Corporation  
DBS Bank (China) Limited

## Financial Highlights

The following table sets forth certain financial ratio of Milan Station Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") as of the date for the years indicated:

	Notes	Year ended 31 December	
		2017	2016
<b>Profitability ratio</b>			
Gross profit margin (%)	1	20.4%	20.9%
Net loss margin (%)	2	(25.6)%	(23.1)%
Return on assets (%)	3	(54.1)%	(25.3)%
Return on equity (%)	4	(67.9)%	(28.1)%
<b>Liquidity ratio</b>			
Current ratio	5	4.7	7.0
Quick ratio	6	3.0	4.5
Gearing ratio (%)	7	2.9%	1.9%
Inventory turnover days	8	79	129.0

*Notes:*

1. Gross profit margin is calculated based on the gross profit for the year divided by revenue and multiplied by 100%.
2. Net loss margin is calculated based on the loss for the year divided by revenue and multiplied by 100%.
3. Return on assets is calculated based on the loss for the year divided by the total assets at the end of the year and multiplied by 100%.
4. Return on equity is calculated based on the loss for the year divided by total equity at the end of the year and multiplied by 100%.
5. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the year.
6. Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities as at the end of the year.
7. Gearing ratio is calculated based on the borrowings and obligations under a finance lease divided by total assets at the end of the year and multiplied by 100%.
8. Inventory turnover days is calculated based on the average of opening and closing inventory balances for the year, divided by the total cost of sales during the year multiplied by the number of days for the respective year incurring cost of sales.

## Director's Statement

Dear Shareholders,

In 2017, Hong Kong retail market business environment is on the path towards stability and has shown signs of recovery. However, market uncertainties posed a challenge to most of retailers. Facing the challenging of retail market, the Group continued to adjust its development strategies to adapt changing market trends, such measures include actively expanding our cost-effective diversified businesses, integrating traditional sales networks and adjusting product portfolio.

Looking back into 2017, the global economy recovered moderately and was likely rebound. The Eurozone economy expanded at its fastest rate in a decade in this year and China's economy grew faster than expected, coupled with Renminbi began to revalue. China's economic growth had substantially boost tourism and consumption sentiments of the Mainland tourist. However, tourist have become more price sensitive when shopping abroad may bring about severe challenges on the luxury market consequently.

In facing uncertain market environment, the Group continued to actively integrate traditional retail networks, enrich product portfolio to cater for consumers' changing preferences and actively identify business with profitability capabilities. The Group also kept abreast of the changes in the rental market and reviewed and adjusted the outlet portfolio from time to time to ensure that the site selected for the outlets met the requirements for cost effectiveness. In order to implement effective cost controls, the Group continued its policy of store consolidation with aggressive rental cuts targeted at tourists' stores or through complete closures. The Group repositioned the stores more in the residential areas with better growth prospects and returns. The annual sales at the Group's operations in Hong Kong increased by 5.5% to approximately HK\$307.6 million as compared to last year. After the acquisition of THANN, the Group opened total 8 THANN retail stores in local consumer shopping malls of Hong Kong business district. The Group also planned to introduce the THANN brand to enter into the Mainland China market. In the future, the Group will focus on enhancing the publicity strategy, actively promoting the THANN brand, further improving its recognition and awareness and make THANN to be a leading brand of natural aroma and skincare products.

During the year, the financial market in Hong Kong was volatile. The Group will closely monitor the performance of this business. The Group will keep adopting a prudent investment attitude with the aim to improve the capital usage efficiency and generate additional investment returns on the idle funds of the Group.

China's luxury goods industry faced downward pressure. The decrease in consumption power in Mainland China, rapid changes in consumer preferences and anticorruption movement by the central government resulted the luxury goods markets in China continued low development momentum. During the year, total sales in Mainland China decreased by 96.2% to approximately HK\$0.7 million resulted from the closure of unprofitable stores in China.

The retail market in Macau had gradually rebounded during the year and the value of retail sales had steadily increased. The revenue of the Group in Macau market increased by 19.8% to approximately HK\$10.3 million as compared to last year. Besides, the Group will continued to observe the market conditions and opportunities in Singapore prudently, and may reconsider the franchised operation in the country when the market outlook becomes promising.

## Director's Statement

Looking forward to 2018, various downside risks remain evident, the global economic environment lacks demand drivers will add further uncertainties and challenges in the months and years ahead. However, the International Monetary Fund expects economic activity in both advanced economies and emerging market and developing economies to accelerate in 2018. Besides, Mainland China's economy will grow further as the consumption demand remain stable. It is predicted that Mainland tourist arrivals in Hong Kong is on an encouragingly upward trend, coupled with positive impacts of the Belt and Road Initiative, Guangzhou-Shenzhen-Hong Kong Express Rail Link and Road Initiative, and Guangdong-Hong Kong-Macau Bay Area development, reflecting Hong Kong retail market thus remains broadly positive. In the future, we will continue to monitor closely the market trends and take flexible measures and at the same time continue to invest resources on brands and businesses to achieve a long term and sustainable growth.

Our core development strategies are to continue consolidating our leading position in the Hong Kong market, further promote local consumption, expand diversified businesses targeting at capturing the development potential of the second-hand handbags market, developing the trading of luxury watches market and at the same time take a prudent approach to develop the Mainland China market. Specifically, we will open retail stores in Hong Kong to cater for local consumer market, negotiate rent concession with landlords aiming at controlling rental costs, focus on mid-priced brands sales to improve our gross profit margin, reposition our staff to enhance operation efficiency, actively search for the opportunities to acquire profitable businesses, enrich the brand portfolio of the Group to attract more potential customers.

Finally, I would like to take this opportunity to express my gratitude to the fellow members of the Board, the management and staff for their contribution to Milan Station in the past year and to shareholders and customers for their long-lasting support to Milan Station. In 2018, we will keep up our efforts and innovative spirit to experiment with different approaches to business development with the aim of generating appropriate returns to our shareholders.

**Hu Bo**  
*Director*

Hong Kong, 28 March 2018

# Management Discussion and Analysis

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Overview

The economy in Hong Kong continued to expand throughout 2017, with a remarkable 3.8% growth. The 2016 downturns in Hong Kong retail market eventually came to an end, and the market was on the way back towards stability and growth.

The Hong Kong retail market showed a moderate recovery pace during the year. The Census and Statistics Department has published Report on Monthly Survey of Retail Sales, which shows that the value of total retail sales in December 2017, provisionally estimated at HK\$44.8 billion, increased by 5.8% over the same month in 2016.

The Renminbi began to revalue following a three-year depreciation, and it recorded an 8% appreciation against the Hong Kong Dollars during the year, which substantially led to a recovery in mainland Chinese tourist arrivals to Hong Kong in 2017. According to the Hong Kong Tourism Board, the number of visits by mainland Chinese tourists to Hong Kong in 2017 grew by 3.9% year on year to about 44.4 million as compared to the corresponding year of 2016, of which same-day visitors and overnight visitors increased by 2% and 6.7% respectively. The number of Mainland tourist arrivals stabilizing as the impact of the one-trip-per-week restriction was fully absorbed and neutralized.

Despite the Hong Kong retail market has shown signs of recovery, with the flow of Mainland tourist arrivals stabilizing, the inbound tourism and local consumption attitude continued to stay in a low level, mainly due to the prudence behavior to the overheating economy in Hong Kong. Additionally, cross-border conflicts in Hong Kong deterred visitors from shopping over the past years. The growing trend towards a higher proportion of the mainland Chinese tourists with lower spending power might not contribute much to the sales of deluxe goods in the Hong Kong. The consumption behavior of mainland visitors has been changing over the past few years. They desire for experiencing the city's culture and history in greater depth, rather than the high expenditure on luxury brands.

As for the Macau market, the typhoon caused a significant damage and disruption to the city during August and September 2017, but the negative impact on the retail market was temporarily and has gradually rebound. The value of retail sales steadily increased in 2017. According to the latest statistics released by the Government of Macao Special Administrative Region Statistics and Census Service, the value of total retail sales in 2017 increased by 12.6%, when comparing with the same period last year. Such increase boosted our performance in the Macau market.

### BUSINESS REVIEW

During the year, the performance of the Group was affected by the deteriorating luxury retail market. During the year, the Group's total revenue decreased by approximately 0.1% to approximately HK\$318.6 million. The revenues generated in the markets of Hong Kong, Mainland China and Macau accounted for 96.5%, 0.2% and 3.3% respectively of the Group's revenue. The Group's gross profit at approximately HK\$65.0 million, which was decreased by 2.5% as compared to last year. The net loss for the year increased by 10.4% to HK\$81.4 million mainly due to the impairment loss on available-for-sales investment of approximately HK\$19.7 million.



## Management Discussion and Analysis

### Hong Kong

During the year, sales of the Group in Hong Kong increased by 5.5% to approximately HK\$307.6 million. The revenue came from the 10 “Milan Station” retail stores, the 8 “THANN” retail stores in Hong Kong and the online sales platform directly managed by the Group and the product sales in other new sales channels.

The Group adhered to the principle of providing genuine and certified products for its customers and formulated stringent and systematic product certification programs. During the year, the Group continued to devote more human resources to the management of merchandise quality, and strengthened the product certification programs with the finer division of labor to ensure that all the products were inspected by professional team. These measures helped the Group to maintain the “Milan Station” brand reputation and earn market recognition, pursuant to which it strengthened the Group’s leading position in the luxury handbags trading industry under the adverse operating environment.

As at 31 December 2017, the Group held the listed securities in Hong Kong with the fair value of HK\$3.6 million under available for sales investments and HK\$16.4 million under financial assets at fair value through profit or loss. The Group recognised a realised gain on disposal of available-for-sales investment of approximately HK\$1.5 million, a reversal of gain of HK\$65.3 million in other comprehensive income and an impairment loss on available-for-sales investment of approximately HK\$19.7 million (2016: gain of approximately HK\$65.3 million in other comprehensive income). The Group also recognised a unrealised loss and realised loss on financial assets at fair value through profit or loss of approximately HK\$1.5 million and HK\$3.4 million respectively. In light of the recent volatile financial market in Hong Kong, the Group will closely monitor the performance of this business and keep adopting a prudent investment attitude with the aim to improve the capital usage efficiency and generate additional investment returns on the idle funds of the Group.

On 4 May 2017, the Group exercised its right attaching to the convertible bonds of China e-Wallet Payment Group Limited to convert the convertible bonds in an aggregate principal amount of HK\$10,000,000 into 40,000,000 conversion shares at the prevailing conversion price of HK\$0.25 per conversion share.

## Management Discussion and Analysis

### Mainland China

During the year, the Group eliminated unprofitable stores as we rightsized our portfolio by closing stores in Mainland China. As a result, the revenue decreased by 96.2% to approximately HK\$0.7 million as compared to the same period last year.

### Macau

The gambling industry and tourism industry in Macau steadily improved during the year. The Group's revenue from the Macau market increased by 19.8% to approximately HK\$10.3 million.

### Overseas Market

In 2016, the Group's franchised operator in the Singapore market terminated its franchised operation. The Group will observe the market conditions and opportunities in Singapore prudently, and may reconsider the franchised operation in the country when the market outlook becomes promising.

### Significant Investments

The Group held significant investments under available-for-sale investments as below:

Company	Stock code	As at 31 December 2017				As at 31 December 2016			
		Percentage of shareholding	Investment cost	Carrying amount	Approximate percentage to the total assets	Percentage of shareholding	Investment cost	Carrying amount	Approximate percentage to the total assets
		(approximately)	HK\$'000	HK\$'000		(approximately)	HK\$'000	HK\$'000	
Tai Kam Holdings Limited	8321	-	-	-	-	0.95%	2,701	75,537	25.9%
Others			23,304	3,582	2.4%	23,304	15,769	5.4%	
			<b>23,304</b>	<b>3,582</b>			<b>26,005</b>	<b>91,306</b>	

For the year ended 31 December 2017, the Group recognised a realised gain on investment in Tai Kam Holding Limited of approximately HK\$1.5 million and recognised an impairment loss on other available-for-sale investments of approximately HK\$19.7 million.

The Group held significant investments under financial assets at fair value through profit or loss as below:

Company	Stock code	As at 1 January 2017		Fair value gain/(loss)	As at 31 December 2017	Percentage of shareholding	Approximate percentage to the total assets
		HK\$'000	Loss on disposal				
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	(approximately)	
China e-Wallet Payment Group Limited	802	-	-	5,107	15,600	1.46%	10.4%
Others		-	(3,376)	(6,576)	812	1.5%	0.5%
		-	<b>(3,376)</b>	<b>(1,469)</b>	<b>16,412</b>		

## Management Discussion and Analysis

### Outlook

With a stabilizing year of 2017 on the Hong Kong retail market, the Group is prudently optimistic about its business performance in 2018.

The domestic demand to the retail market is foreseeably strong in the coming year. According to the salient features of economic performance released by the Government, there are several positive factors to the Hong Kong retail market in 2018. The domestic demand is expected to be robust, regarding the favorable labor market and upbeat economic sentiment. The Government forecasts the domestic demand to remain resilient, with a real GDP growth forecast of 3-4% in 2018, and the medium term forecast of real GDP growth rate to 2022 will be 3% per annum. The Hong Kong retail market may benefit from the persistent growing trend in the economy.

Hong Kong will continue to be irrigated by the Belt and Road Initiative, Guangzhou-Shenzhen-Hong Kong Express Rail Link and Road Initiative, and Guangdong-Hong Kong-Macau Bay Area development. Such arrangements by the Chinese Government will bring positive impact to the retail market by bringing more tourists with high purchasing power to Hong Kong. The positive impacts to Hong Kong may start in the second half year in 2018, since the Hong Kong-Zhuhai-Macau Bridge, and Guangzhou-Shenzhen-Hong Kong Express Rail Link and Road Initiative will open to traffic in the second and third quarter in 2018 respectively.

In order to implement effective cost controls, we shall continue our policy of store consolidation with aggressive rental cuts targeted at tourist stores or through complete closures. We shall reposition our stores more in the residential areas with better growth prospects and returns, as well as locating them in the New Territories districts. We shall optimise our store network to maximise store profitability, and we shall simplify and centralise workflows at store level to increase productivity and reduce costs. In terms of stock management, we shall reduce inventories more aggressively and clear slow moving stocks to better display productive goods.

The Group will adhere to its consistently stringent operation principle and continue to reinforce its leading position in the industry by leveraging on its brand influence which has been developed over the years, with the emphasis on grasping local consumption and endeavoring to control labor and rental costs. At the same time, the Group will actively identify businesses with profitability capabilities, enrich its brand portfolio and expand diversified business, with a view to generating reasonable returns to its shareholders.

The management believes, with the tremendous efforts by all our staff, the Group will strengthen our competitiveness, overcome the challenges in 2018 and continue our growth with the diverting business model.

### Development Strategy

Looking ahead, the Group will continue to consolidate and increase its market share in Hong Kong, focusing on brand image building, promoting domestic consumption and developing diversified business as its core strategy, enlarge the second-hand handbags market share and developing the trading of luxury watches market. The Group will actively explore opportunities to acquire businesses with profitability capabilities, consolidate its conventional retail network, intensify its efforts to develop domestic consumer market and control rental costs effectively, aiming at enhancing its profit and overall competitiveness and coping with the current challenges in retail markets.

## Management Discussion and Analysis

In 2018, the Group will focus on the development of mid-priced market and second-hand handbags market and trading of luxury watches market and broaden its customer base. The specific strategy is to increase the proportion of mid-priced branded handbags in sales and provide more competitive price to cater for the prudent consumption pattern of local customers. The Group will also commit itself to consolidating the original market share for brand new handbags, maintaining good relationships with key European luxury brand handbag distributors and reducing procurement costs. The Group will continue to participate in Christie's Auction and increase its profit through the limited edition handbags auction. The Group will respond to market situation and choose to develop its own "MS" brand handbag business when the time is right.

After the acquisition of THANN, the Group opened 8 THANN retail stores in local consumer shopping malls of Hong Kong business district. In the future, the Group will focus on enhancing the publicity strategy, actively promoting the THANN brand, further improving its recognition and awareness and make THANN to be a leading brand of natural aroma and skincare products. The Group will prudently and actively identify other acquisition target and share the same development concept with the Group to further extend its product mix, so as to bring more quality choices to consumers.

In light of the structural changes in retail markets, the Group will make corresponding adjustments to our store network strategy. Under the major premise of promoting local consumption, in the future, the Group plans to open retail stores in local consumption shopping malls located in business districts as its target and improve the store per-square-meter sales performance as well as the gross profit margin of the Group. The overall rentals for shops under the Group tend to drop, which is beneficial to the Group to lease shops with more cost-efficient terms. The Group will continue to keep abreast of the changes in the rental market, and review the outlet portfolio of retail stores prudently.

The Group will adhere to its consistently stringent operation principle and continue to reinforce its leading position in the industry by leveraging on its brand influence which has been developed over the years, with the emphasis on grasping local consumption and endeavoring to control labor and rental costs. At the same time, the Group will actively identify businesses with profitability capabilities, enrich its brand portfolio and expand diversified business, with a view to generating reasonable returns to its shareholders.

### FINANCIAL REVIEW

#### Revenue

During the year, total revenue decreased to approximately HK\$318.6 million, representing a decrease of 0.1% as compared to approximately HK\$318.8 million recorded in last year. Handbags were the most important product category for the Group, representing over 88.2% of the total revenue of the Group. The revenue generated from the sales of unused products increased to approximately HK\$233.2 million recorded in last year, representing 73.2% of the total revenue of the Group.

Since most of the retail shops under the brand name of "Milan Station" are located in Hong Kong, the source of revenue also concentrates in the Hong Kong market. For the year ended 31 December 2017, the revenue generated from the Hong Kong market was approximately HK\$307.6 million, representing approximately 96.5% of the total revenue of the Group. Revenue generated from the Mainland China market decreased from approximately HK\$18.6 million last year to approximately HK\$0.7 million during the year ended 31 December 2017. Revenue generated from the Macau market increased from approximately HK\$8.6 million during the last year to approximately HK\$10.3 million during the year ended 31 December 2017.

## Management Discussion and Analysis

The table below sets out the breakdown of the Group's revenue recorded for the years ended 31 December 2017 and 2016 by product categories, by price range of products and by geographical locations and their respective percentages to the total revenue of the Group:

	For the year ended 31 December				
	2017		2016		Percentage change in revenue
	HK\$ million	Percentage of total revenue	HK\$ million	Percentage of total revenue	
<b>By product categories</b>					
<b>(handbags and other products)</b>					
Handbags	281.0	88.2	293.7	92.1	(4.3)
Other products	37.6	11.8	25.1	7.9	49.8
<b>Total</b>	<b>318.6</b>	<b>100.0</b>	<b>318.8</b>	<b>100.0</b>	<b>(0.1)</b>
<b>By product categories</b>					
<b>(unused and second-hand products)</b>					
Unused products	233.2	73.2	228.5	71.7	2.1
Second-hand products	85.4	26.8	90.3	28.3	(5.4)
<b>Total</b>	<b>318.6</b>	<b>100.0</b>	<b>318.8</b>	<b>100.0</b>	<b>(0.1)</b>
<b>By price range of products</b>					
Within HK\$10,000	72.0	22.6	76.7	24.1	(6.1)
HK\$10,001–HK\$30,000	55.7	17.5	53.9	16.9	3.3
HK\$30,001–HK\$50,000	18.2	5.7	18.3	5.7	(0.5)
Above HK\$50,000	172.7	54.2	169.9	53.3	1.6
<b>Total</b>	<b>318.6</b>	<b>100.0</b>	<b>318.8</b>	<b>100.0</b>	<b>(0.1)</b>
<b>By geographical locations</b>					
Hong Kong	307.6	96.5	291.6	91.5	5.5
The PRC	0.7	0.2	18.6	5.8	(96.2)
Macau	10.3	3.3	8.6	2.7	19.8
Singapore	-	-	-	-	-
<b>Total</b>	<b>318.6</b>	<b>100.0</b>	<b>318.8</b>	<b>100.0</b>	<b>(0.1)</b>

## Management Discussion and Analysis

### Cost of sales

For the year ended 31 December 2017, cost of sales for the Group was approximately HK\$253.6 million, increased by 0.6% year-on-year. Cost of sales mainly consisted of cost of inventories sold by the Group's suppliers.

### Gross profit and gross profit margin

Gross profit of the Group for the year under review decreased by HK\$1.7 million to approximately HK\$65.0 million, with its gross profit margin decreased slightly from 20.9% to 20.4%.

### Inventory

The Group's total inventories as at 31 December 2017 and 2016 were HK\$46.7 million and HK\$63.1 million respectively. The total inventories of the Group are recorded after netting of the provision for slow-moving inventories. Inventory turnover days of the Group improved to 79 days for the year ended 31 December 2017 (2016: 129 days).

The following table sets forth an aging analysis of inventories for the Group's handbag products as at 31 December of the two comparative years:

	31 December 2017	2016
	HK\$'000	HK\$'000
<b>Aging of inventories (handbags products)</b>		
0 to 90 days	18,478	18,359
91 to 180 days	7,847	3,510
181 days to 1 year	7,969	9,569
Over 1 year	10,563	20,501
Total	44,857	51,939

## Management Discussion and Analysis

The following table sets forth an aging analysis of inventories for the Group's other products as at 31 December of the two comparative years:

	31 December	
	2017	2016
	HK\$'000	HK\$'000
<b>Aging of inventories (other products)</b>		
0 to 45 days	256	9,290
46 to 90 days	731	1,271
91 days to 1 year	742	456
Over 1 year	143	156
Total	<b>1,872</b>	<b>11,173</b>

The following table sets forth an aging analysis of inventories for the Group's premium priced handbag products over HK\$50,000 as at 31 December of the two comparative years:

	31 December	
	2017	2016
	HK\$'000	HK\$'000
<b>Aging of inventories (handbags products over HK\$50,000)</b>		
0 to 90 days	11,057	5,941
91 to 180 days	3,667	661
181 days to 1 year	2,343	1,946
Over 1 year	2,553	4,529
Total	<b>19,620</b>	<b>13,077</b>

### Other (loss)/income and gains, net

During the year ended 31 December 2017, other loss amounted to approximately HK\$21.7 million, significant increased by HK\$21.1 million as compared to other loss amounted to approximately HK\$0.6 million in last year. It was mainly attributable to the impairment loss on available-for-sale investment of approximately HK\$19.7 million.

## Management Discussion and Analysis

### Selling expenses

The major items of the Group's selling expenses include rent and rates, employee benefit expenses for sales staff and bank credit card charges. For the year ended 31 December 2017, selling expenses of the Group were approximately HK\$67.5 million, representing 21.2% of the Group's revenue (2016: approximately HK\$69.8 million, representing 21.9% of the Group's revenue). Selling expenses decreased mainly due to the decrease in rental expenses of the retail stores.

### Administrative and other operating expenses

Administrative and other operating expenses of the Group for the year ended 31 December 2017 amounted to approximately HK\$56.1 million, decreased by approximately HK\$14.0 million as compared to last year on a year-on-year basis, representing approximately 17.6% of the revenue. The Group's administrative and other operating expenses mainly consisted of the rental expenses for the closure of certain retail shops, directors' remuneration, salaries and employee benefit expenses for the senior management and administrative staff, as well as legal and professional expenses. The decrease in administrative and other operating expenses was mainly due to the decrease in directors' remuneration.

### Finance costs

Finance costs of the Group mainly consisted of interest expenses on bank borrowings and finance lease. Finance costs amounted to approximately HK\$0.9 million in 2017, increased by HK\$0.7 million as compared to last year. The increase in finance cost was mainly due to the interest expense incurred in the new subsidiary acquired in March 2017.

### Loss attributable to the owners of the Company

Loss attributable to the owners of the Company for the year ended 31 December 2017 was approximately HK\$80.8 million, representing an increase of 10.9% from approximately HK\$72.8 million for the year ended 31 December 2016. Loss per share attributable to the owners of the Company was approximately HK9.9 cents for the year ended 31 December 2017, as compared to approximately HK10.3 cents for the year ended 31 December 2016.

### Employees and remuneration policy

As at 31 December 2017, the Group had a total of 94 employees (2016: 124 employees). The Group's remuneration policy was determined according to the position, performance and experience of the staff as well as the market trend. Staff benefits of the Group include basic salaries, subsidies, insurance and commission/bonus. The remuneration policy was reviewed by the Board from time to time. The emoluments of Directors were reviewed by the remuneration committee of the Company and recommended to the Board for approval after considering the Group's operating results, individual performance and comparing with marketing conditions.



## Management Discussion and Analysis

### Liquidity and financial resources

As at 31 December 2017 and 31 December 2016, the Group did not have any bank borrowing.

As at 31 December 2017, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK\$30.3 million, HK\$30.3 million and HK\$120.2 million respectively (2016: approximately HK\$50.8 million, HK\$29.0 million and HK\$259.7 million respectively). The Group's gearing ratio, current ratio and quick ratio as at 31 December 2017 were approximately 2.9%, 4.7 and 3.0 respectively (2016: 1.9%, 7.0 and 4.5 respectively).

### Pledge of assets

As at 31 December 2017 and 31 December 2016, the Group had no assets and bank deposits were pledged to banks to secure the bank borrowing and general banking facilities granted to the Group.

### Foreign exchange policy

The Group carried on its trading transactions mainly in Hong Kong dollars, Renminbi ("RMB"), United States ("US") dollars and Singapore dollars. It is the Group's policy to continue maintaining the balance of its sales and purchases in the same currency. The Group did not have any hedging arrangement on foreign exchange. The Directors are of the view that the transactional exposure of the Group in currencies other than the functional currencies is maintained at an acceptable level.

### Contingent liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities.

### Capital commitments

The Group did not have any capital commitments regarding any for purchase of property, plant and equipment as at 31 December 2017 and 31 December 2016.

### Grant of Share Options

On 27 July 2017 (the "Date of Grant"), the Board granted 67,420,000 share options under the share option scheme adopted by the Company on 28 April 2011 (the "Share Option Scheme") at an exercise price of HK\$0.175 per share, which represents the highest of (i) the closing price of HK\$0.175 per Share on the Date of Grant; (ii) the average closing price of HK\$0.146 per share for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of HK\$0.01 per share. Details of the above grant of share options were disclosed in the announcement of the Company dated 27 July 2017.

## Biographical Details

### EXECUTIVE DIRECTORS

**Mr. Hu Bo**, aged 41, was appointed as an Executive Director on 6 June 2016. He was graduated from Dongbei University of Finance and Economics in 2002. He has extensive experience in sales and marketing strategies and management. He worked as the Sales Director and Deputy General Manager at Shenzhen Huayi Technology Co., Limited (深圳華億信息科技有限公司).

**Ms. Cao Huijuan**, aged 33, was appointed as an Executive Director on 24 March 2017. She was graduated from HuBei University of Technology in 2006. She has extensive experience in strategic planning and management. She worked as the Chief Operation Officer and Vice President at Shenzhen Zhongji Multimedia Co., Limited (深圳中際影視傳媒有限公司).

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Chi Hung**, aged 44, was appointed as an Independent Non-executive Director on 22 July 2015. He holds a Bachelor of Science Degree with major in Economics with University of Minnesota, and is an alumni of Stanford Graduate School of Business with a certificate of Stanford Executive Program. He is currently an executive director of EPI (Holdings) Limited, a non-executive director of Build King Holdings Limited and an independent non-executive director of China Minsheng Drawin Technology Group Limited (formerly known as South East Group Limited), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Chan was an executive director and the managing director of China Financial Leasing Group Limited during the period from April 2007 to July 2013, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Chan was the investment manager of Springfield Financial Advisory Limited, in charge of private equity, fund-of-funds and fixed income investment portfolios. He started his career as a banker at J.P. Morgan Chase.

**Mr. Tou Kin Chuen**, aged 41, was appointed as an Independent Non-executive Director on 22 July 2015. He is the principal of Roger K.C. Tou & Co.. Mr. Tou graduated from the Hong Kong Shue Yan University (formerly known as Hong Kong Shue Yan College) with a Honours Diploma in Accounting in 2001. He has over 18 years' experience in audit, taxation, company secretarial, insolvency and finance. Mr. Tou is a member of the Hong Kong Institute of Certified Public Accountants and an associate of the Taxation Institute of Hong Kong. He is currently an independent non-executive director of Sun Century Group Limited, the shares of which are listed on the Main Board of the Stock Exchange, and Sun International Resources Limited, the shares of which are listed on the GEM.

**Mr. Choi Kam Yan, Simon**, aged 34, was appointed as an Independent Non-executive Director on 1 February 2018. He is currently working with China Information Technology Development Limited as the Investment Project consultant. He is responsible for assessing expected return on individual investment projects. Before China Information Technology Development Limited, he worked with HSBC Banking Corporation as the assistant manager in business banking sector which is responsible for performing due diligence in providing banking services and providing investment and insurance advices to corporate customers. Mr. Choi obtained Bachelor Degrees in Business Administration-Finance and Economics from State university of New York at Stony Brook.

## Biographical Details

### SENIOR MANAGEMENT

**Mr. Chan Hon Leung**, aged 47, is the chief marketing officer of the Group. He joined the Group as a shop manager in 2001 and was responsible for purchasing procedures and sales transactions process; performing the product examination and reviewing daily reports. In 2007, he was promoted to a district manager of the Group and was responsible for supervising and monitoring the Group's retail operation and provide in-house training for the techniques to distinguish genuine products from counterfeit products and the procedures of checking anti-counterfeit features. Since 2009, he was appointed to be chief marketing officer of the Group. He is now responsible for the overall management of marketing department which includes determining the product portfolio, formulating the marketing and pricing strategies of the Group. In addition, he is currently in charge of the in-house training courses including product knowledge and techniques for product examination. He is also a member of the design team of the Group and is responsible for the development of products under "MS" brand. Through his employment with the Group, he has acquired about ten years of experience in the fashion retail industry.

**Mr. Choi Wai Kei**, aged 44, is the General Manager (China) of the Group. He joined the Group in 2013 and has over seventeen years of experience in practical retail operations and sales management in Hong Kong, China and Southeast Asia. He is currently responsible for overseeing the Group's retail operation in certain cities in China. Mr. Choi is the brother of Mr. Choi Wai Kwok, Andy, the former Executive Director and the Chief Executive Officer of the Company.

Before joining the Group, he worked as the South China General Manager in High Fashion International Limited, a company listed on the Main Board of the Stock Exchange, from May 2011 to January 2013; National General Manager (Greater China) in Marchiori from October 2009 to April 2011; and Regional Sales Manager (China) in G2000 (Apparel) Limited from July 2005 to September 2009.

**Mr. Cheng Chung Yin, Bernardo**, aged 49, is the district manager of the Group. He joined the Group in 2003 and was promoted to shop manager in 2007 and further to district manager in 2009. He is currently responsible for the management of the Group's retail operation in certain districts in Hong Kong. He obtained a Diploma in Management Studies awarded jointly by The Hong Kong Polytechnic University and The Hong Kong Management Association in 2001.

## Corporate Governance Report

### CORPORATE GOVERNANCE PRACTICE

The board of directors (the “Board”) of the Company is committed to maintaining high standards of corporate governance and recognizes the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Company had adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange (the “Stock Exchange”) as its own code of corporate governance practice.

During the year ended 31 December 2017 (the “Reporting Year”), the Company had complied with all applicable code provisions under the CG Code save as disclosed below.

### DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as the code of conduct regarding securities transactions by the Directors (the “Model Code”). Having made specific enquiries to the Directors, all the Directors confirmed that they complied with the required standards as set out in the Model Code throughout the year ended 31 December 2017.

### CAPITAL STRUCTURE AND TREASURY POLICIES

The Group consistently employed a prudent treasury policy during its development and generally financed its operations and business development with internally generated resources and equity and/or debt financing activities. The Group also adopted flexible and prudent fiscal policies to effectively manage the Group’s assets and liabilities and strengthen the Group’s financial position.

### BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Group (comprising the Company and its subsidiaries) and oversees the Group’s businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management.

The Board currently consists of five members, including two Executive Directors and three Independent Non-executive Directors. At least one of our Independent Non-executive Directors has the professional and accounting qualifications as required by the Listing Rules.

The Board schedules at least four regular meetings a year and also meets as and when required. During the Reporting Year, the Board held four regular meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. Under code provision A.1.3 of the CG Code, notice of at least 14 days should be given of a regular board meeting to all Directors to give all Directors an opportunity to attend. During the Reporting Year, certain Board meetings were convened with less than 14 days’ notice to facilitate the Directors’ timely reaction and expeditious decision making process in respect of investment opportunity and internal affairs of the Group. All Board meetings, nevertheless, were duly convened and held in the way prescribed by the Articles of Association of the Company. The Board will use reasonable endeavour to meet the requirement of code provision A.1.3 of the CG Code in future. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. In addition to regular Board meetings, the Chairman of the Board met with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of the Executive Directors.

## Corporate Governance Report

All Directors have given sufficient time and attention to the affairs of the Group. Each Executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The members of the Board and the attendance of each member during the Reporting Year are as follows:

	Directors	Number of attendance/ Eligible to attended
Executive Directors	Yiu Kwan Tat ( <i>Chairman</i> ) (resigned on 13 April 2017)	1/1
	Yiu Kwan Wai, Gary ( <i>Managing Director</i> ) (resigned on 13 April 2017)	1/1
	Choi Wai Kwok, Andy ( <i>Chief Executive Officer</i> ) (resigned on 5 April 2017)	1/1
	Hu Bo	4/4
	Cao Huijuan (appointed on 24 March 2017)	4/4
	Non-executive Directors	Tam B Ray, Billy (resigned on 3 March 2017)
Independent Non-executive Directors	So, Stephen Hon Cheung (resigned on 3 February 2017)	0/0
	Chan Chi Hung	4/4
	Tou Kin Chuen	4/4
	Chau Shing Yip, Colin (resigned on 31 December 2017)	4/4

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all Directors and committee members for comments before being approved by the Board and relevant committees at their next immediate meeting or within the period accepted by them. All minutes are kept by the Company Secretary and are open for inspection by the Directors.

The Company has received annual confirmation of independence from each of the Independent Non-executive Directors and considers them to be independent.

The Board members have no financial, business, family or other material/relevant relationship with each other except those disclosed in the Directors' biographical details. Given the nature and business objectives of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of Directors and their respective biographies are set out on pages 17 and 18 of this annual report.

Pursuant to Article 84 of the Articles of Association of the Company, at each annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting of the Company at least once every three year. All retiring Directors shall be eligible for re-election. All the Non-executive Directors (including the Independent Non-executive Directors) have been appointed for specific terms.

## Corporate Governance Report

Article 83(3) of the Articles of Association of the Company provides that (i) any director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the shareholders after his appointment and be subject to re-election at such meeting, and (ii) any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The attendance of the Directors at the Annual General Meeting ("AGM") held on 6 June 2017, are as follows:

	Directors	AGM
Executive Directors	Yiu Kwan Tat ( <i>Chairman</i> ) (resigned on 13 April 2017)	0/0
	Yiu Kwan Wai, Gary ( <i>Managing Director</i> ) (resigned on 13 April 2017)	0/0
	Choi Wai Kwok, Andy ( <i>Chief Executive Officer</i> ) (resigned on 5 April 2017)	0/0
	Hu Bo	1/1
	Cao Huijuan (appointed on 24 March 2017)	1/1
	Non-executive Directors	Tam B Ray, Billy (resigned on 3 March 2017)
Independent Non-executive Directors	So, Stephen Hon Cheung (resigned on 3 February 2017)	0/0
	Chan Chi Hung	1/1
	Tou Kin Chuen	1/1
	Chau Shing Yip, Colin (resigned on 31 December 2017)	1/1

### DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. The Company has devised a training record in order to assist the Directors to record the training they have undertaken and they are asked to submit a signed training record to the Company on quarterly basis.

## Corporate Governance Report

During the Reporting Year, each individual Director has attended training courses or workshops relevant to his/her professional and/or duties as Director. A summary of the training they have received for the year ended 31 December 2017 is as follow:

	Directors	Course/seminar provided/ accredited by professional body	Reading materials
Executive Directors	Yiu Kwan Tat ( <i>Chairman</i> ) (resigned on 13 April 2017)	–	✓
	Yiu Kwan Wai, Gary ( <i>Managing Director</i> ) (resigned on 13 April 2017)	–	✓
	Choi Wai Kwok, Andy ( <i>Chief Executive Officer</i> ) (resigned on 5 April 2017)	–	✓
	Hu Bo	–	✓
	Cao Huijuan (appointed on 24 March 2017)	–	✓
	Non-executive Directors	Tam B Ray, Billy (resigned on 3 March 2017)	✓
Independent Non-executive Directors	So, Stephen Hon Cheung (resigned on 3 February 2017)	✓	✓
	Chan Chi Hung	✓	–
	Tou Kin Chuen	✓	–
	Chau Shing Yip, Colin (resigned on 31 December 2017)	✓	–

### REMUNERATION COMMITTEE

The Remuneration Committee was established on 28 April 2011 with specific written terms of reference in compliance with the CG Code. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The primary duties of the Remuneration Committee are to evaluate and make recommendations to the Board regarding the compensation of the Directors. In addition, the Remuneration Committee conducts reviews of the performance, and determines the compensation structure of the senior management.

During the Reporting Year, the Remuneration Committee comprises three Directors, a majority of whom are Independent Non-executive Directors. The Remuneration Committee held one meetings.

## Corporate Governance Report

The members of the Remuneration Committee and the attendance of each member during the Reporting Year are as follows:

	<b>Remuneration Committee Members</b>	<b>Number of attendance/ Eligible to attended</b>
Independent Non-executive Directors	Tou Kin Chuen ( <i>Chairman</i> )	1/1
	So, Stephen Hon Cheung (ceased as a member of the Remuneration Committee and Director on 3 February 2017)	0/0
	Chan Chi Hung	1/1
Executive Director	Yiu Kwan Tat (ceased as a member of the Remuneration Committee and Director on 13 April 2017)	1/1
	Hu Bo (appointed as a member of the Remuneration Committee on 13 April 2017)	0/0

During the Reporting Year, the Remuneration Committee performed the following duties:

- (1) reviewed the year end bonus and remuneration packages (including salary adjustments) of the Executive Directors and senior management with recommendations to the Board for approval;
- (2) reviewed the remuneration packages of the newly appointed Executive Director and Independent Non-executive Directors with recommendations to the Board for approval; and
- (3) reviewed the proposals for the grant of the share options under the Company's share option scheme with recommendations to the Board for approval.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2017 is set out below:

<b>Remuneration band</b>	<b>Number of individuals</b>
Nil to HK\$1,000,000	3
HK\$1,000,001 to HK\$3,000,000	2
HK\$3,000,001 to HK\$6,500,000	1

Details of the remuneration of each Director for the year ended 31 December 2017 are set out in note 8 to the financial statements.



## Corporate Governance Report

### NOMINATION COMMITTEE

The Nomination Committee was established on 20 January 2012 with specific written terms of reference in compliance with the CG Code. During the Reporting Year, the Nomination Committee comprises three Directors, a majority of whom are Independent Non-executive Directors. The Nomination Committee held six meetings.

The Company seeks to achieve Board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

The members of the Nomination Committee and the attendance of each member during the Reporting Year are as follows:

	<b>Nomination Committee Members</b>	<b>Number of attendance/Eligible to attended</b>
Executive Director	Hu Bo ( <i>Chairman</i> ) (appointed as a Chairman of Nomination Committee on 13 April 2017)	1/1
	Yiu Kwan Tat ( <i>Chairman</i> ) (ceased as a member of Nomination Committee and Director on 13 April 2017)	4/4
Independent Non-executive Directors	So, Stephen Hon Cheung (ceased as a member of Nomination Committee and Director on 3 February 2017)	0/0
	Chan Chi Hung	6/6
	Tou Kin Chuen	6/6

During the Reporting Year, the Nomination Committee performed the following duties:

- (a) reviewed the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board;
- (b) assessed the independence of all Independent Non-executive Directors;
- (c) made recommendations to the Board on the nomination of Directors for re-election at the annual general meeting of the Company; and
- (d) identified individual suitably qualified to become the Executive Director and Independent Non-executive Directors and made recommendation to the Board on the selection of individual nominated for the Executive Director and Independent Non-executive Directors.

## Corporate Governance Report

### AUDIT COMMITTEE

The Audit Committee was established on 28 April 2011 with specific written terms of reference in compliance with the CG Code. In December 2015, on the recommendation of the Audit Committee, the Board has approved and adopted the revised terms of reference of the Audit Committee in light of the amendments of CG Code, and the same published on the websites of the Stock Exchange and the Company.

The Audit Committee is responsible for reviewing and supervising the financial reporting process and internal control system as well as risk management function of the Group and providing advice and comments to the Board.

During the Reporting Year, the Audit Committee held two meetings.

The members of the Audit Committee and the attendance of each member during the Reporting Year are as follows:

Audit Committee Members		Number of attendance/Eligible to attended
Independent Non-executive Directors	So, Stephen Hon Cheung ( <i>Chairman</i> ) (ceased as the Chairman of Audit Committee and Director on 3 February 2017)	0/0
	Chan Chi Hung	2/2
	Tou Kin Chuen (appointed as the Chairman of Audit Committee on 3 February 2017)	2/2
	Chau Shing Yip, Colin (resigned on 31 December 2017)	2/2

During the Reporting Year, the Audit Committee performed the following duties:

- (a) reviewed and discussed with the management of the Company the accounting principles and practices adopted by the Group as well as financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2017 and the audited financial statements for the year ended 31 December 2016 with recommendation to the Board for approval;
- (b) reviewed reports on internal control system covering corporate governance, internal control, financial, operational (including information security) and compliance functions;
- (c) considered the independent auditor's independence and fee in relation to the unaudited interim financial statements of the Group for the six months ended 30 June 2017 and the audited financial statements of the Group for the year ended 31 December 2017;
- (d) recommended the Board on the re-establishment of the Internal Audit Department of the Group; and
- (e) recommended the Board on the adoption of the revised terms of reference of the Audit Committee.

## Corporate Governance Report

All members of the Audit Committee possess in-depth experience in their own profession. The Chairman of the Audit Committee, Tou Kin Chuen, possesses appropriate professional qualifications in finance and accounting and meets the requirements of Rule 3.21 of the Listing Rules. No member of the Audit Committee is a former partner of the existing auditing firm of the Company during one year after he ceases to be partner of the auditing firm.

### AUDITORS' REMUNERATION

During the Reporting Year, the Group was charged, HK\$820,000 for auditing services and HK\$180,000 for non-auditing services by the Company's auditors, HLB Hodgson Impey Cheng Limited.

Services rendered	Fees/paid payable
	HK\$'000
Audit services – annual audit	820
Non-audit services:	
Taxation services	180
	<u>1,000</u>

### CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the corporate governance duties as set out below:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;  
and
- (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

To indemnify Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the executive of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

## Corporate Governance Report

### ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2017 and for the year ended 31 December 2017, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the Reporting Year have been prepared on a going concern basis.

The reporting responsibilities of the Company's external auditors, HLB Hodgson Impey Cheng Limited, are stated in the "Independent Auditors' Report" on pages 45 to 50 of this annual report.

### CORPORATE GOVERNANCE MEASURES IN RELATION TO NON-COMPETITION UNDERTAKINGS

In accordance with the non-competition undertakings set out in the deed of non-competition dated 28 April 2011 executed by the controlling shareholders (comprising Mr. Yiu Kwan Tat and his wholly-owned company, Perfect One Enterprises Limited) in favour of the Company ("Deed of Non-Competition"), save and except the exceptional circumstances, the controlling shareholders of the Company have undertaken to the Company that they shall not carry on any business which is in competition with the business of the Group in Hong Kong, the PRC and Macau, details of which are more particularly set out in the prospectus of the Company dated 11 May 2011.

The following corporate governance measures have been adopted to monitor the compliance of the Deed of Non-Competition during the Reporting Year:

- (a) The controlling shareholders had procured the Independent Non-executive Directors to review, on annual basis, the compliance with the Deed of Non-Competition by the controlling shareholders and their respective associates, or first rights of refusal provided by the controlling shareholders and their respective associates on their existing or future competing businesses.
- (b) The controlling shareholders had promptly provided all information necessary for the annual review by the Independent Non-executive Directors and the enforcement of the Deed of Non-Competition and provided to the Company a written confirmation relating to the compliance of the Deed of Non-Competition and made an annual declaration on compliance with the Deed of Non-Competition in the annual report of the Company for the year ended 31 December 2017.
- (c) The Independent Non-executive Directors having reviewed the relevant information and the written confirmation provided by the controlling shareholders decided that the undertakings in respect of the Deed of Non-Competition had been duly enforced and complied with by the controlling shareholders during the Reporting Year.

### RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss, and to mitigate rather than eliminate risks of failure in the operational systems and achievements of the Group's business objectives.

## Corporate Governance Report

The Board has engaged an independent internal control review advisor (the “Internal Control Advisor”), conducted interim and annual reviews of the effectiveness of the internal control system of the Group covering the Group’s corporate governance, internal control, financial, operational (including information security), as well as risk management function and compliance functions. The Board as the ultimate responsible governing body of the Group monitors compliance with policies and procedures and the effectiveness of internal control structures across the Group and its principal divisions. The Board also ensures the internal controls are in place and functioning properly as intended. During the risk assessment process, the Internal Control Advisor interviewed the relevant personal and identified the business objectives and significant risks of the Group. A risk management report prepared by the Internal Control Advisor which sets out the risks, issues and recommended action plan was presented to the Board for review and endorsement. The Board considered that significant risks of the Group were managed within the acceptable level and the management will continue to monitor the residual risks and report to the Board on an ongoing basis.

In response to the risk management report, the management shall implement proper policies and procedures to review the effectiveness of risk management and internal control and remedy any defects of internal control, including conduct evaluation on a regular basis to keep abreast of the related information in a timely manner so as to facilitate the Audit Committee and the Board to evaluate the effectiveness of control and risk management of the Group.

For the year ended 31 December 2017, the Board and Audit committee have reviewed and confirmed the effectiveness of the risk management and internal control systems.

The Group has a formal whistle-blowing policy to encourage and guide its staff to raise serious concerns internally in a responsible manner, without fear of retribution. During the year under review, the Board has not been informed any complaints or concerns over financial improprieties from staff.

The Group has the Inside Information Policy which sets out guidelines to the Directors and senior management of the Group to ensure inside information of the Group would be disseminated to the public in equal and timely manner in accordance with applicable laws and regulations.

### COMPANY SECRETARY

Mr. Yung Kai Wing (“Mr. Yung”) has been appointed as the company secretary of the Company since 1 September 2016. According to Rule 3.29 of the Listing Rules, Mr. Yung has taken no less than 15 hours of professional training during the year ended 31 December 2017.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company established a shareholders’ communication policy and reviews it on a regular basis to ensure its effectiveness. The Company communicates with the shareholders (the “Shareholders”), the potential investors or the investment community (collectively, the “Investors”) of the Company mainly in the following ways:

- (a) the holding of annual general meetings and extraordinary general meetings, if any, which may be convened for specific purpose and provide opportunities for the Shareholders and Investors to communicate directly with the Board;
- (b) the publication of interim and annual reports, circulars, announcements and notice of shareholder meetings as required under the Listing Rules and/or press releases of the Company providing updated information of the Group; and
- (c) the latest information of the Group will be available on the websites of the Stock Exchange and the Company.

## Corporate Governance Report

The annual general meetings shall be called by notice of not less than 21 clear days and not less than 20 clear business days prior to the date of meetings and any extraordinary general meetings at which the passing a special resolution is to be considered shall be called by notice of not less than 21 clear days and not less than 10 clear business days prior to the date of meetings. All other extraordinary general meetings may be called by notice of not less than 14 clear days and not less than 10 clear business days prior to the date of meetings.

### SHAREHOLDERS' RIGHTS

#### Convening an Extraordinary General Meeting by Shareholders

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary 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 requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

#### Procedures for Sending Enquiries and Proposals to the Board

Shareholder(s) may send in their enquiries and put forward proposals to the Board of the Company by sending the same to:

The Director  
Milan Station Holdings Limited  
Units 1-3, 4th Floor, Tower 1  
South Seas Centre  
No. 75 Mody Road  
Kowloon, Hong Kong

OR

Email: [ms\\_ir@milanstation.net](mailto:ms_ir@milanstation.net)

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

### INVESTOR RELATIONS

There is no significant change in the Company's constitutional documents during the Reporting Year.

## Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

### BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 are provided in the "Director's Statement" and "Management Discussion and Analysis" on pages 5 to 6 and pages 7 to 16, respectively, of this annual report.

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 51 to 121 of this annual report.

The Board has resolved not to declare a final dividend for the year ended 31 December 2017 (2016: Nil).

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 1 June 2018 to Wednesday, 6 June 2018 (both days inclusive), during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Thursday, 31 May 2018.

### USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

- (i) The proceeds from the listing, after deduction of related issuance expenses, amounted to HK\$10.3 million.
- (ii) The Company completed a placing on 19 October 2016, pursuant to which the Company has allotted 135,496,000 placing shares to not less than six places at HK\$0.329 per placing share. The net proceeds of the placing were approximately HK\$43.5 million. As at 31 December 2017, the Group had utilized the net proceeds of the placing as general working capital as intended.

## Report of the Directors

As at 31 December 2017, the net proceeds of initial public offering (“IPO”) had been utilised as follows:

Actual net IPO proceeds upon the full exercise of the over- allotment option on 23 May 2011	Revised allocation on 2 November 2011	Amount utilised up to 31 December 2012	Amount		Amount		Amount		Amount		Amount		Balance as at 31 December 2017	
			Balance as at 31 December 2012	utilised for the year end 31 December 2013	Balance as at 31 December 2013	utilised for the year end 31 December 2014	Balance as at 31 December 2014	utilised for the year end 31 December 2015	Balance as at 31 December 2015	utilised for the year end 31 December 2016				
			HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million		
			2011	2011	2012	2012	2013	2013	2014	2014	2015	2015		2016
Expansion of retail network in the PRC market	148.0	113.5	41.7	71.8	24.7	47.1	8.9	38.2	-	38.2	30.0	8.2	-	8.2
Decorating new retail shops, relocating and redecorating several existing shops in Hong Kong, Mainland China and Macau	12.0	12.0	5.5	6.5	2.9	3.6	3.5	0.1	-	0.1	0.1	-	-	-
Marketing and promotion of the Group	17.0	17.0	2.9	14.1	6.6	7.5	7.2	0.3	0.3	-	-	-	-	-
Design and development of private label “MS” brand products	4.0	4.0	-	4.0	2.1	1.9	1.5	0.4	-	0.4	-	0.4	0.4	-
Exploration of online sales channel	2.4	2.4	2.4	-	-	-	-	-	-	-	-	-	-	-
Staff training and development	2.8	2.8	0.3	2.5	0.2	2.3	-	2.3	-	2.3	-	2.3	0.2	2.1
Upgrading of the Group’s information technology system	3.2	3.2	1.9	1.3	0.8	0.5	-	0.5	-	0.5	-	0.5	0.5	-
General working capital	13.3	10.3	-	10.3	1.5	8.8	8.8	-	-	-	-	-	-	-
Acquisition of the property for own use	-	37.5	37.5	-	-	-	-	-	-	-	-	-	-	-
	202.7	202.7	92.2	110.5	38.8	71.7	30.0	41.8	0.3	41.5	30.1	11.4	1.1	10.3

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 122 of this annual report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.



## Report of the Directors

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in Company's issued share capital during the year are set out in note 28 to the financial statements.

Details of movements in the Company's share options during the year are set out in note 29 to the financial statements and pages 36 to 38 of this report.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company (the "Shareholders") unless otherwise required by the Stock Exchange.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out in note 37 to the financial statements and in the consolidated statement of changes in equity.

### DISTRIBUTABLE RESERVES

At 31 December 2017, the Company's reserves available for distribution amounted to approximately HK\$228,876,000, representing the share premium account and capital reserve of the Company of approximately HK\$773,508,000 in aggregate less the accumulated losses as at 31 December 2017 of approximately HK\$544,632,000. Under the Companies Law, Cap. 22 (as amended) of the Cayman Islands, the share premium account and capital reserve of the Company is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account and capital reserve may also be distributed in the form of fully paid bonus shares.

### DONATIONS

During the year, the Group made charitable contributions totalling HK\$22,500.

### MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2017, the Group's sales to the five largest customers and purchases from the five largest suppliers accounted for less than 30% of the Group's turnover and purchases, respectively.

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

## Report of the Directors

### DIRECTORS

The Directors of the Company during the year were and up to the date of this annual report were:

Executive Directors:

- Mr. Yiu Kwan Tat (*Chairman*) (resigned on 13 April 2017)
- Mr. Yiu Kwan Wai, Gary (*Managing Director*) (resigned on 13 April 2017)
- Mr. Choi Wai Kwok, Andy (*Chief Executive Officer*) (resigned on 5 April 2017)
- Mr. Hu Bo
- Ms. Cao Huijuan (appointed on 24 March 2017)

Non-executive Directors:

- Mr. Tam B Ray, Billy (resigned on 3 March 2017)

Independent Non-executive Directors:

- Mr. Chan Chi Hung
- Mr. Tou Kin Chuen
- Mr. Chau Shing Yip, Colin (resigned on 31 December 2017)
- Mr. So, Stephen Hon Cheung (resigned on 3 February 2017)
- Mr. Choi Kam Yan, Simon (appointed on 1 February 2018)

Pursuant to Articles 84(1) and 84(2) of the Articles of Association, Mr. Hu Bo and Mr. Chan Chi Hung shall retire by rotation from office at the forthcoming annual general meeting. Each of Mr. Hu Bo and Mr. Chan Chi Hung, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Pursuant to Article 83(3) of the Articles of Association, Mr. Choi Kam Yan, Simon shall retire by rotation from office at the forthcoming annual general meeting. Mr. Choi Kam Yan, Simon, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report were:

- |                          |                  |                             |           |
|--------------------------|------------------|-----------------------------|-----------|
| Mr. Yiu Kwan Tat         | Mr. Yiu Kwan Wai | Ms. Yiu Sau Wai             | Mr. Hu Bo |
| Ms. Wang Xiaomei         | Mr. Loi Win Yen  | Mr. Hau Wing Shing, Vincent |           |
| Ms. Lou Sun Yee, Barbara | Ms. Zhang Qin    |                             |           |

## Report of the Directors

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its Independent Non-executive Directors an annual confirmation of their independence from the Group. Based on the confirmations, the Company considers that each of such Directors to be independent from the Group.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 18 of this annual report.

### DIRECTORS' SERVICE CONTRACTS

Mr. Hu Bo and Ms. Cao Huijuan, both Executive Directors, has renewed a letter of appointment and is appointed for an initial term of 1 year commencing on 6 June 2017 and 24 March 2018 respectively, which may be terminated by not less than 1 month's notice in writing served by either party on the other.

Mr. Choi Kam Yan, Simon, an Independent Non-executive Directors, has signed a letter of appointment and is appointed for an initial term of 1 year commencing on 1 February 2018.

Each of Mr. Chan Chi Hung and Mr. Tou Kin Chuen, both Independent Non-executive Directors, has renewed a service contract with the Company for another term of 1 year commencing on 22 July 2017, which may be terminated by not less than 1 month's notice in writing served by either party on the other.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Save as disclosed above, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

Directors are subject to retirement by rotation at least once every three years as required by the Articles of Association.

## Report of the Directors

### DIRECTORS' REMUNERATION

The Directors' ordinary remuneration shall be subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' contributions, experience, relevant duties, responsibilities and performance and the results of the Group.

### DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions disclosed in note 32 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year ended 31 December 2017.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2017.

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

As at 31 December 2017, the Directors and the chief executive of the Company had the following interests or short positions 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 (Chapter 571 of the Laws of Hong Kong)(the "SFO")) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange:

#### Long Positions in ordinary shares of the Company

Name of Director	Number of shares held, capacity and nature of interest				Approximate percentage of issued share capital
	Personal Interest	Corporate Interest	Family	Total	
Mr. Yiu Kwan Tat (resigned on 13 April 2017)	–	88,100,000 (Note)	–	88,100,000	10.83%

*Note:* These shares were held by Perfect One Enterprises Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Yiu Kwan Tat. By virtue of the SFO, Mr. Yiu Kwan Tat is deemed to be interested in the entire 88,100,000 shares held by Perfect One Enterprises Limited.

## Report of the Directors

### Long Position in share options of the Company

Name of participants	Number of share options			Approximate percentage of issued share capital
	Personal Interest	Family Interest	Total	
<b>Executive Directors</b>				
Mr. Yiu Kwan Tat (resigned on 13 April 2017)	6,740,000	–	6,740,000	0.83%

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

### SHARE OPTIONS

The Company operates a share option scheme adopted by the Company on 28 April 2011 (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

The Directors shall be entitled at any time within 10 years commencing on 28 April 2011 to make an offer for the grant of a share option.

At the extraordinary general meeting of the Company held on 5 June 2015, the scheme mandate limit for the Scheme was refreshed to allow the Company to issue a maximum of 67,437,400 share options under the Scheme.

During the year ended 31 December 2017, 67,420,000 share options were granted by the Company under the Scheme, no share options were exercised, 11,241,000 shares options were lapsed. The outstanding number of the shares available for issue under the Scheme is 80,905,000, representing approximately 9.9% of the issued share capital of the Company as at 28 March 2018 (i.e. 813,633,000 shares).

## Report of the Directors

The movements in share options granted under the Scheme during the year ended 31 December 2017 are shown below:

Name or category of participants	Number of share options						At 31 December 2017	Date of grant of share options	Validity period of share options	Exercise price of share options HK\$ per share
	At 1 January 2017	Granted during the year	Exercised during the year (Note)	Expired during the year	Reclassified during the year	Lapsed during the year				
<b>Executive Directors</b>										
Mr. Yiu Kwan Tat (resigned on 13 April 2017)	6,740,000	-	-	-	-	-	6,740,000	11-7-14	11-7-15 to 10-7-19	0.616
Mr. Yiu Kwan Wai, Gary (resigned on 13 April 2017)	6,740,000	-	-	-	-	(6,740,000)	-	11-7-14	11-7-15 to 10-7-19	0.616
Mr. Choi Wai Kwok, Andy (resigned on 5 April 2017)	3,900,000	-	-	-	-	(3,900,000)	-	11-7-14	11-7-15 to 10-7-19	0.616
<b>Non-executive Directors</b>										
Mr. Tam B Ray, Billy (resigned on 3 March 2017)	300,000	-	-	-	-	(300,000)	-	13-5-15	13-5-15 to 12-5-20	1.210
<b>Independent Non-executive Directors</b>										
Mr. So, Stephen Hon Cheung (resigned on 3 February 2017)	300,000	-	-	-	-	(300,000)	-	13-5-15	13-5-15 to 12-5-20	1.210
	17,980,000	-	-	-	-	(11,240,000)	6,740,000			
<b>Other employees</b>										
In aggregate	6,746,000	-	-	-	-	(1,000)	6,745,000	11-7-14	11-7-15 to 10-7-19	0.616
	-	67,420,000	-	-	-	-	67,420,000	27-7-17	27-7-17 to 26-7-22	0.175
	24,726,000	67,420,000	-	-	-	(11,241,000)	80,905,000			

Note: The weighted average closing price of the shares immediately before the date on which the share options were exercised was HK\$1.03.

The closing price of the Company's shares immediately before the date on which the share options were granted, i.e., 10 July 2014, 12 May 2015 and 27 July 2017, were HK\$0.61, HK\$1.21 and HK\$0.175 per share respectively.

## Report of the Directors

The Directors have estimated the values of the share options granted on 11 July 2014, 13 May 2015 and 27 July 2017, calculated using the binomial model as at the date of grant of the share options:

	Number of share options held during the year	Theoretical value of share options
		HK\$'000
Mr. Yiu Kwan Tat (resigned on 13 April 2017)	6,740,000	1,831
Other employees	74,165,000	8,216
	80,905,000	10,047

The binomial model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options included risk-free interest rate, expected life, expected volatility and expected dividend yield. The measurement dates used in the valuation calculations were the dates on which the options were granted. For the details of the assumptions, please refer to note 29 to the financial statements.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### CONTRACT OF SIGNIFICANCE

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

## Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, shareholders of the Company (not being Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company are set out below:

	Capacity	Number of ordinary shares held	Approximate percentage of issued share capital
Perfect One Enterprises Limited	Beneficial owner	88,100,000 (Note)	10.83%
Chen Huaijun	Beneficial owner	50,000,000	6.15%

Note: The entire issued share capital of Perfect One Enterprises Limited is wholly and beneficially owned by Mr. Yiu Kwan Tat. By virtue of the SFO, Mr. Yiu is deemed to be interested in the entire 88,100,000 shares held by Perfect One Enterprises Limited.

Save as disclosed above, as at 31 December 2017, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or otherwise notified to the Company.

## CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

	Notes	2017 HK\$'000	2016 HK\$'000
Rental expenses paid to related companies	(a) to (b)	8,112	8,112
Purchases from a related company	(c)	1,657	44
Legal and professional expenses to a related company	(d)	34	66

Notes:

- (a) Milan Station (Causeway Bay) Limited ("MS (CWB)"), a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of the Company, and Excel Trend Limited ("Excel Trend"), a company incorporated in Hong Kong with limited liability and indirectly beneficially wholly owned by Mr. Yiu Kwan Tat ("Mr. Yiu"), the former Chairman and an Executive Director, entered into a lease agreement in relation to the leasing of the premises situated at Areas E and F on the Ground Floor of Percival House, No. 83 Percival Street, Causeway Bay, Hong Kong for retail uses. The total amount of rental expenses (inclusive of government rent, government rates and management fees) paid by MS (CWB) for the year was HK\$7.6 million.



## Report of the Directors

- (b) The Company, and Fully Art Limited ("Fully Art"), a company incorporated in Hong Kong with limited liability and the issued shares is owned as 50% by Mr. Yiu Kwan Wai, Gary, a former Executive Director and as to 50% by Ms. Yiu Sau Wai ("Ms. Yiu"), a former Executive Director, entered into a lease agreement in relation to the leasing of the premises situated at Flat B, 31st Floor of Tower 1, The Waterfront, 1 Austin Road West, Tsim Sha Tsui, Kowloon, Hong Kong for retail uses. The total amount of rental expenses (inclusive of government rent, government rates and management fees) paid by the Company for the year was HK\$0.5 million.
- (c) The Company and Yes Lady Finance Company Limited ("Yes Lady"), a company incorporated in Hong Kong with limited liability and 50% of the issued shares of which is owned by Mr. Yiu, entered into a master supply agreement ("Previous Master Supply Agreement") in relation to the provision of advising services by the Company and the supply of pre-owned luxury branded handbags and provision of advertising space by Yes Lady. The amount paid by the Company does not exceed the cap amount of HK\$3,000,000.
- (d) The Company and Messrs. Ho & Tam Solicitors ("Ho & Tam"), Mr. Tam B Ray, Billy, a Non-executive Director, is a partner, entered into a legal services agreement ("Previous Legal Services Agreement") in relation to provision of legal advisory services to the Group. The amount paid by the Company does not exceed the cap amount of HK\$3,000,000.

The above transactions have complied with the requirements for continuing connected transactions under Chapter 14A of the Listing Rules.

The Directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

Pursuant to the Listing Rules, the Independent Non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and (iv) have not exceeded the relevant maximum amount capped in accordance with the announcements of the Company dated 20 January 2012, 20 November 2012, 19 December 2013, 5 June 2014, 30 December 2014 and 24 December 2015, respectively, and the prospectus of the Company dated 11 May 2011 (the "Prospectus").

HLB Hodgson Impey Cheng Limited, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. HLB Hodgson Impey Cheng Limited have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

## Report of the Directors

### RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year are set out in note 32 to the financial statements and include transactions that constitute continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied.

### SUFFICIENCY OF PUBLIC FLOAT

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

### DEED OF NON-COMPETITION

Each of the controlling shareholders has confirmed to the Company of his/its compliance with the non-competition undertakings provided to the Company under the Deed of Non-competition (as defined in the Prospectus). The Independent Non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by the controlling shareholders.

### CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2017, save for certain derivations. The Corporate Governance Report is set out on pages 19 to 29 of this annual report.

### ENVIRONMENTAL POLICIES AND SOCIAL RESPONSIBILITIES

In 2017, the Group has actively responded to the general direction of social development, strived to meet the demands of environmental and social responsibility, strengthened our group's and employees' awareness of the environment and society, and actively participated in environmental and social issues. To better protect natural resources, we have taken various measures to save energy, reduce waste and consumption, and promote the use of environmentally friendly products in our daily business operations. In terms of social issues, the Group attaches great importance to the cultivation of knowledge and talent in order to establish a safe and honest working environment that bears social responsibilities to our employees. Meanwhile, we would like to share our ideas and concepts with our stakeholders. Through these practices, the Group has achieved encouraging results regarding environmental and social aspects.

Detail information regarding the environmental, social and governance practices adopted by the Group is set out in the Environmental, Social and Governance Report which will be disclosed as a separate report and published on the websites of the Stock Exchange and the Company no later than three months after the publication of this annual report.

## Report of the Directors

### RELATIONSHIPS WITH EMPLOYEES

The employees of the Group are one of the most important assets and stakeholders of the Group and their contribution and support are values at all times. The Group regularly reviews compensation and benefits policies accordingly to industry benchmark as well as the individual performance of employees. Other fringe benefits, mandatory provident fund and share options are provided to retain loyal employees with the aim to form a professional staff and management team that can bring the Group to different levels of success.

### RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Directors believe that maintaining good relationships with customers has been one of the critical reasons for the Group's success. Our business model is to maintain and build on our strong relationships within our client base. Our mission is to provide the finest service to our customers and the Group is constantly looking ways to improve customer relations through enhanced services. Regarding the retail businesses, the Group has no major suppliers.

### PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group include strategic, operational and financial risks.

#### Strategic risks

The Directors maintain a strategic plan based on the knowledge to the external environments. The Group will invest in projects and investments based on the strategic plan in order to cope with the market demand and expectation. Given the rapid change of unforeseeable external environments in the financial and equity markets, the Group is facing significant strategic risks on its investments when changing the strategic plans to adopt the unexpected changes of external environments.

#### Operational risks

Management regularly reviews the Group's operations to ensure that the Group's risk of losses, whether financial or otherwise, resulting from fraud, errors, omissions and other operational and compliance matters, are adequately managed.

#### Financial risks

The principal financial risks are set out in note 35 to the financial statements headed "FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES".

## Report of the Directors

### **EQUITY-LINKED AGREEMENTS**

Save for disclosed in the sections headed “Grant of Share Options” in the “Management Discussion and Analysis” on pages 7 to 16 of this annual report and the section headed “Share Options” on pages 36 to 38 of this report, the Company has not entered into any equity-linked agreements during the year.

### **PERMITTED INDEMNITY PROVISION**

Pursuant to the Company’s articles of association, the Directors, secretary and every auditor for the time being of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, shall or may incur or sustain by or by reasons of any act done, concurred in or omitted in or about the execution of their duties, or supposed duty, in their respective offices or otherwise in relation thereto.

The Company has taken out insurance against all losses and liabilities associated with defending any proceedings which may be brought against Directors and other officers of the Company.

### **COMPLIANCE WITH LAWS AND REGULATIONS**

During the year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed with the management of the Company the financial statements of the Group for the year ended 31 December 2017 and discussed with the management of the Company on auditing, internal control, financial reporting matters as well as risk management function. Information on the composition of the Audit Committee is set out in the Corporate Governance Report on pages 19 to 29 of this annual report.

## Report of the Directors

### AUDITORS

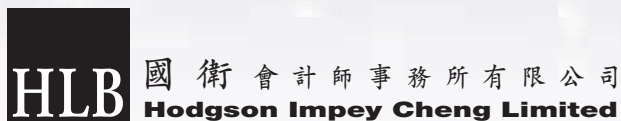
The financial statements for the years ended 31 December 2013 were audited by Messrs. Ernst & Young and that for the year ended 31 December 2014 and 2015 were audited by Crowe Horwath (HK) CPA Limited.

Crowe Horwath (HK) CPA Limited resigned as auditors of the Company with effect from 5 December 2016 and HLB Hodgson Impey Cheng Limited was appointed on 15 December 2016 as the new auditors to fill the cause vacancy. The financial statements for the year ended 31 December 2017 was audited by HLB Hodgson Impey Cheng Limited whose term of office will be expired upon the forth coming annual general meeting. An ordinary resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditor of the Company for the subsequent year will be proposed at the forthcoming annual general meeting.

By Order of the Board  
**Milan Station Holdings Limited**  
**Hu Bo**  
*Executive Director*

Hong Kong, 28 March 2018

## Independent Auditors' Report



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

### To the Shareholders of Milan Station Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*

### Opinion

We have audited the consolidated financial statements of Milan Station Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 121, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Opinion

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

## Independent Auditors' Report

### Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Allowance of inventories</b></p> <p>Refer to note 3 and note 19 to the consolidated financial statements</p> <p>Management has assessed the provision of estimation for obsolete and slow-moving inventories due to a change in products sold in recent years and the latest experience of selling merchandise of similar nature. Net realisable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. As at 31 December 2017, the carrying values of inventories were HK\$46,729,000 (net of allowance of HK\$2,564,000).</p>	<p>Our procedures in relation to management's valuation of inventories included:</p> <ul style="list-style-type: none"> <li>• Understanding how the management identify obsolete and slow-moving inventory items, and estimates the allowance for obsolete and slow moving inventory items as at 31 December 2017;</li> <li>• Testing the accuracy of the inventories ageing analysis as at 31 December 2017, on sample basis;</li> <li>• Assessing the reasonableness of the net realizable value of inventories and allowance of inventories estimated by the management;</li> <li>• Tracing the latest selling prices to the sales invoices, on sample basis; and</li> <li>• Evaluating the historical accuracy of the allowance of inventories estimation by management.</li> </ul> <p>We found the key assumptions were supported by the available evidence.</p>

## Independent Auditors' Report

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment assessment of intangible assets and goodwill.</b></p>	<p>Refer to note 3 and 14 to the consolidated financial statements</p> <p>As at 31 December 2017, the Group has intangible assets of approximately HK\$1,625,000 and goodwill of approximately HK\$2,013,000 relating to spa and wellness products business acquisitions in previous years.</p> <p>Management performed impairment assessment of intangible assets and goodwill based on value in use model that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order support management's estimates.</p> <p>Our procedures in relation to management impairment assessment included:</p> <ul style="list-style-type: none"> <li>• Evaluating the independent valuer's competence, capabilities and objectivity;</li> <li>• Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the relevant industry and using our valuation experts;</li> <li>• Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and</li> <li>• Checking, on a sampling basis, the accuracy and relevance of the input data used.</li> </ul> <p>We found that the assumptions were supported by the available evidence.</p>
<p><b>Impairment assessment of trade and loan receivables</b></p>	<p>Refer to note 3, note 20 and 21 to the consolidated financial statements</p> <p>The Group has trade receivables and loan receivables of approximately HKD 5,930,000 and HKD 4,729,000, respectively. During the year ended 31 December 2017. Management judgement is required in assessing and determining the recoverability of trade and loan receivables and adequacy of allowance made.</p> <p>The judgement mainly includes estimating and evaluating expect future receipts from customers based on past payment trend, age of the debtors, knowledge of the customers' business and financial condition.</p> <p>Our procedures in relation to management's impairment assessment on trade and loan receivables included:</p> <ul style="list-style-type: none"> <li>• Discussing the Group's procedures on credit limits and credit periods given to customers with the management;</li> <li>• Evaluating the management's impairment assessment of trade and loan receivables;</li> <li>• Assessing, validating and discussing with the management and evaluating their assessment on the recoverability of the outstanding debts and the adequacy of allowance made based on the trade and loan receivables ageing analysis, collections subsequent to the end of the reporting period, past collection history and trend analysis and knowledge of the businesses, with focus on long outstanding debts and debts which are past due but not impaired; and</li> <li>• Checking on a sample basis, the accuracy and relevance of information included in the impairment assessment of trade and loan receivables. We consider the management conclusion to be consistent with the available information.</li> </ul> <p>We found that the assumptions were supported by the available evidence.</p>



## Independent Auditors' Report

### Other Information

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

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

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

### Responsibilities of the Directors and the Audit Committee for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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.

## Independent Auditors' Report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

## Independent Auditors' Report

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

The engagement director on the audit resulting in this independent auditors' report is Hon Koon Fai, Alex.

### **HLB Hodgson Impey Cheng Limited**

*Certified Public Accountants*

### **Hon Koon Fai, Alex**

Practising Certificate Number: P05029

Hong Kong, 28 March 2018

## Consolidated Statement of Profit or Loss

Year ended 31 December 2017

		2017	2016
	Note	HK\$'000	HK\$'000
<b>REVENUE</b>	5	<b>318,619</b>	318,802
Cost of sales		<b>(253,645)</b>	(252,154)
Gross profit		<b>64,974</b>	66,648
Other (loss)/income and gains, net	5	<b>(21,687)</b>	(628)
Selling expenses		<b>(67,508)</b>	(69,788)
Administrative and other operating expenses		<b>(56,127)</b>	(70,098)
Finance costs	6	<b>(944)</b>	(206)
<b>LOSS BEFORE TAX</b>	7	<b>(81,292)</b>	(74,072)
Income tax expense	10	<b>(144)</b>	287
<b>LOSS FOR THE YEAR</b>		<b>(81,436)</b>	(73,785)
Attributable to:			
Owners of the Company		<b>(80,784)</b>	(72,820)
Non-controlling interests		<b>(652)</b>	(965)
		<b>(81,436)</b>	(73,785)
<b>LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
– Basic and diluted	12	<b>HK(9.9 cents)</b>	HK(10.3 cents)

The notes on pages 58 to 121 form part of these financial statements.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2017

	2017	2016
	HK\$'000	HK\$'000
<b>LOSS FOR THE YEAR</b>	<b>(81,436)</b>	<b>(73,785)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS):</b>		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	167	(290)
Fair value gain on revaluation of available-for-sale investments	–	65,305
Reclassification adjustment relating to available-for-sale investments disposed of during the year	(65,305)	–
Total other comprehensive (loss)/income for the year	<b>(65,138)</b>	65,015
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(146,574)</b>	<b>(8,770)</b>
Attributable to:		
Owners of the Company	<b>(145,922)</b>	(7,668)
Non-controlling interests	<b>(652)</b>	(1,102)
	<b>(146,574)</b>	<b>(8,770)</b>

The notes on pages 58 to 121 form part of these financial statements.

## Consolidated Statement of Financial Position

31 December 2017

		2017	2016
	Notes	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	10,802	13,129
Intangible assets	14	3,638	4,203
Available-for-sale investments	16(a)	3,582	91,306
Investments in convertible bonds	17	–	7,468
Deposits	18	2,378	2,314
Total non-current assets		20,400	118,420
<b>CURRENT ASSETS</b>			
Inventories	19	46,729	63,112
Trade receivables	20	5,930	4,272
Loan receivables	21	4,729	–
Prepayments, deposits and other receivables	18	25,311	51,473
Financial assets at fair value through profit and loss	16(b)	16,412	–
Other financial assets	22	–	2,911
Tax recoverable		291	485
Cash and cash equivalents	23	30,348	50,797
Total current assets		129,750	173,050
<b>CURRENT LIABILITIES</b>			
Trade and other payables	24	25,166	22,381
Obligations under finance leases	25	1,312	1,469
Tax payable		1,150	826
Total current liabilities		27,628	24,676
<b>NET CURRENT ASSETS</b>		<b>102,122</b>	<b>148,374</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>122,522</b>	<b>266,794</b>
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance leases	25	2,118	3,430
Provisions	26	90	239
Deferred tax liabilities	27	444	624
Total non-current liabilities		2,652	4,293
<b>NET ASSETS</b>		<b>119,870</b>	<b>262,501</b>
<b>EQUITY</b>			
Issued capital	28	8,136	8,136
Reserves	30	112,029	251,566
<b>Equity attributable to owners of the Company</b>		<b>120,165</b>	<b>259,702</b>
Non-controlling interests		(295)	2,799
<b>TOTAL EQUITY</b>		<b>119,870</b>	<b>262,501</b>

Approved and authorised for issue by the board of directors on 28 March 2018 and signed on its behalf by:

Hu Bo  
Director

Cao Huijuan  
Director

The notes on pages 58 to 121 form part of these financial statements.

## Consolidated Statement of Changes In Equity

Year ended 31 December 2017

	Attributable to owners of the Company											
	Share Issued Capital	Share premium account	Capital reserve	Merger reserves	Statutory reserve fund	Investment revaluation reserve	Exchange fluctuation reserve	Share option reserve	Retained profits	Total	Non- controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	6,775	175,834	10	(23,782)	1,729	-	(1,072)	10,551	53,466	223,511	3,901	227,412
Loss for the year	-	-	-	-	-	-	-	-	(72,820)	(72,820)	(965)	(73,785)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	(153)	-	-	(153)	(137)	(290)
Fair value gain on revaluation of available-for-sale investment	-	-	-	-	-	65,305	-	-	-	65,305	-	65,305
Total other comprehensive income	-	-	-	-	-	65,305	(153)	-	-	65,152	(137)	65,015
Total comprehensive loss for the year	-	-	-	-	-	65,305	(153)	-	(72,820)	(7,668)	(1,102)	(8,770)
Shares issued under share option scheme	6	570	-	-	-	-	-	(176)	-	400	-	400
Issue of share upon placing	1,355	43,223	-	-	-	-	-	-	-	44,578	-	44,578
Share issue expenses	-	(1,119)	-	-	-	-	-	-	-	(1,119)	-	(1,119)
Transfer of share option reserve upon the lapse of share options	-	-	-	-	-	-	-	(3,538)	3,538	-	-	-
At 31 December 2016	8,136	218,508	10	(23,782)	1,729	65,305	(1,225)	6,837	(15,816)	259,702	2,799	262,501

## Consolidated Statement of Changes In Equity

Year ended 31 December 2017

	Attributable to owners of the Company										Total equity	
	Capital	Share premium account	Capital reserve	Merger reserves	Statutory reserve fund	Investment revaluation reserve	Exchange fluctuation reserve	Share option reserve	Retained profits	Non-controlling interests		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	8,136	218,508	10	(23,782)	1,729	65,305	(1,225)	6,837	(15,816)	259,702	2,799	262,501
Loss for the year	-	-	-	-	-	-	-	-	(80,784)	(80,784)	(652)	(81,436)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	167	-	-	167	-	167
Fair value gain on revaluation of available-for-sale investment	-	-	-	-	-	(65,305)	-	-	-	(65,305)	-	(65,305)
Total other comprehensive loss	-	-	-	-	-	(65,305)	167	-	-	(65,138)	-	(65,138)
Total comprehensive loss for the year	-	-	-	-	-	(65,305)	167	-	(80,784)	(145,922)	(652)	(146,574)
Deregistration of subsidiaries	-	-	-	-	-	-	935	-	(935)	-	(2,442)	(2,442)
Transfer of share option reserve upon the lapse of share options	-	-	-	-	-	-	-	(3,175)	3,175	-	-	-
Share based payment expenses	-	-	-	-	-	-	-	6,385	-	6,385	-	6,385
At 31 December 2017	8,136	218,508	10	(23,782)	1,729	-	(123)	10,047	(94,360)	120,165	(295)	119,870

These reserve accounts comprise the consolidated reserves of HK\$112,029,000 (2016: HK\$251,566,000) in the consolidated statement of financial position.

The notes on pages 58 to 121 form part of these financial statements.



## Consolidated Statement of Cash Flows

Year ended 31 December 2017

		2017	2016
	Note	HK\$'000	HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(81,292)	(74,072)
Adjustments for:			
Bank interest income	5	(10)	(151)
Loss on disposal of property, plant and equipment	5	109	19
Gain on acquisition of a subsidiary		(58)	–
Loss on write-off of property, plant and equipment	7	17	4,003
Write down for slow-moving inventories, net	7	2,564	3,590
Depreciation	7	6,096	7,304
Amortisation of intangible assets	7	565	565
Impairment of available-for-sale investments	5	19,720	2,600
(Gain)/loss on disposal of available-for-sale investments	5	(1,487)	572
Interest income from investments in convertible bonds		(335)	(158)
Change of fair value of other financial asset	5	139	(221)
Fair value loss on financial assets at fair value through profit and loss			
– Unrealised		1,469	–
– Realised		3,376	–
Share-based payment expenses		6,385	–
Finance costs	6	944	206
		(41,798)	(55,743)
Decrease in inventories		13,819	48,354
(Increase)/decrease in trade receivables		(1,658)	4,896
Decrease in loan receivables		21,415	–
Decrease/(increase) in prepayments, deposits and other receivable		26,180	(28,866)
(Decrease)/Increase in trade and other payables		(5,087)	2,762
Decrease in other liabilities		(104)	(4,554)
Decrease in provisions		(149)	(45)
Cash used in operations		12,618	(33,196)
Hong Kong profits tax refunded/(paid)		194	844
Overseas taxes paid		–	(57)
Net cash generated from/(used in) operating activities		12,812	(32,409)

## Consolidated Statement of Cash Flows

Year ended 31 December 2017

		2017	2016
	Note	HK\$'000	HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		10	151
Purchases of items of property, plant and equipment		(3,895)	(3,828)
Purchase of financial assets at fair value through profit or loss		(15,346)	(6,897)
Purchase of available-for-sale investments		–	(26,001)
Purchase of Investment in CB		–	(10,000)
Proceeds from disposal of property, plant and equipment		–	7
Proceeds from disposal of financial assets of fair value through profit or loss		4,582	6,325
Proceeds from disposal of available-for-sale investments		4,186	–
Net cash inflow on acquisition of a subsidiary	31	161	–
Net cash outflow on deregistration of subsidiaries		(2,442)	–
Net cash used in from investing activities		(12,744)	(40,243)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from shares issued under share option scheme		–	400
Share issuing expenses		–	(1,119)
Proceeds from issue of shares		–	44,578
Capital element of finance lease payables		(1,469)	(1,961)
Interest paid		(696)	(7)
Interest elements on finance lease rental payments		(248)	(199)
Repayment of loan payable		(18,271)	–
Net cash (used in)/generated from financing activities		(20,684)	41,692
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at the beginning of the year		50,797	82,069
Effect of foreign exchange rate changes, net		167	(312)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	23	<b>30,348</b>	<b>50,797</b>

**Major non-cash transactions**

- i) During the year ended 31 December 2017, the Group entered into a financial lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK\$Nil (2016: HK\$6,000,000).

## Notes to the Financial Statements

For the year ended 31 December 2017

### 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 1 November 2007. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and its principal place of business in Hong Kong is located at Units 1-3, 4/F, Tower 1, South Seas Centre, No. 75 Mody Road, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are retailing of handbags, fashion accessories, embellishments and spa and wellness products. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the immediate parent and ultimate holding company of the Company is Perfect One Enterprises Limited ("Perfect One"), which was incorporated in the British Virgin Islands and controlled by Mr. Yiu Kwan Tat, the former chairman of the Company.

### 2.1 BASIS OF PREPARATION

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

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

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

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.1 BASIS OF PREPARATION *(continued)*

#### Statement of compliance *(continued)*

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

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

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

#### Amendments to HKFRSs that are mandatory effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

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

#### Amendments to HKAS 7 “Disclosure Initiative”

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

The Group’s liabilities arising from financing activities consist of obligation under finance lease (note 25).

A reconciliation between the opening and closing balances of these items is provided in note 36 to the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36, the application of these amendments has had no impact on the Group’s consolidated financial statements.

#### Amendments to HKAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Group’s consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in way that is consistent with these amendments.

#### Annual Improvement to HKFRSs 2014-2016 Cycle

The Group has applied the amendments to HKFRS 12 included in the Annual Improvements to HKFRSs 2014 – 2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

## Notes to the Financial Statements

For the year ended 31 December 2017

**2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)****Annual Improvement to HKFRSs 2014-2016 Cycle (continued)**

HKFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of HKFRS 12 for such interests.

The application of these amendments has had no effect on the Group’s consolidated financial statements as none of the Group’s interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

**New and revised HKFRSs in issue but not yet effective**

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

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>4</sup>
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle <sup>1</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

#### HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

#### HKFRS 9 “Financial Instruments” *(continued)*

Based on the Group’s financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

##### *Classification and measurement*

Unlisted shares classified as available-for-sale financial assets carried at fair value as disclosed in note 16, these shares qualify for designation as measured at FVTOCI under HKFRS 9; however, the fair value gains or losses accumulated in the investment revaluation reserve will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group’s profit or loss and other comprehensive income but will not affect total comprehensive income.

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under HKAS39.

##### *Impairment*

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on rental and other receivables and fixed deposits with financial institutions. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

#### HKFRS 15 “Revenue from Contracts with Customers”

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

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation



## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

#### HKFRS 15 “Revenue from Contracts with Customers” *(continued)*

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

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

#### HKFRS 16 “Leases”

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

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

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

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

As set out in note 33, total operating lease commitment of the Group in respect of its shops, office premises and warehouse as at 31 December 2017 and 2016 was amounting to approximately HK\$29,148,000 and HK\$79,852,000, respectively. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group’s results at this stage but it is expect certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

#### Amendments to HKAS 40 “Transfers of Investment Property”

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction. For example, change in use for transfer from properties under development for sale in the ordinary course of business to investment properties could be evidenced by inception of an operating lease to another party. Currently, the Group accounts for such transfer only upon commencement of an operating lease.

The directors of the Company anticipate that the application of these amendments will result in early recognition of such transfers on the Group’s consolidated financial statements in future periods should there be a change in use of any of its properties.

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The results of subsidiaries are included in the Company’s statement of profit or loss to the extent of dividends received and receivable. The Company’s investments in subsidiaries are stated at cost less any impairment losses.

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree’s identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Business combinations and goodwill** *(continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Fair value measurement

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Impairment of non-financial assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### Related parties

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

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group; or
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group 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;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Related parties *(continued)*

- (b) the party is an entity where any of the following condition applies: *(continued)*
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

#### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of items of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land under finance lease	Over the lease terms
Buildings	2%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and office equipment	20%
Motor Vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Intangible assets (other than goodwill)**

Exclusive distribution right in a business combination is recognised at fair value at the acquisition date. Exclusive distribution right has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over its useful lives of 5 years according to the contract.

#### **Leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in items of property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor to sub-lease the leased assets under operating lease, such rentals receivable are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms. Any difference between the straight-line rent amount and the amount payable under the lease is included in other liabilities in the consolidated statement of financial position. Contingent rental payments are expensed as incurred.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in items of property, plant and equipment.

#### **Investments and other financial assets**

##### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Investments and other financial assets** *(continued)*

##### *Subsequent measurement*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other operating expenses.

##### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income and gains, net, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other income and gains, net. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.



## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

#### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Impairment of financial assets** *(continued)*

##### *Financial assets carried at amortised cost* *(continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative and other operating expenses in the statement of profit or loss.

##### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

##### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include obligations under a finance lease and accrued liabilities and other payables.

##### *Subsequent measurement*

###### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

#### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

#### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

#### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.
- (c) rental income, on a time proportion basis over the lease terms.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Employee benefits

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

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. The subsidiaries operating in Mainland China are required to make contributions for their employees who are registered as permanent residents in Mainland China. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes.

The employees of the Group’s subsidiary which operates in Macau are required to participate in a central social security scheme operated by the Macao Special Administrative Region Government. The subsidiary operating in Macau is required to make contributions for its employees who are registered as residents to the central social security scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central social security schemes.

The employees of the Group’s subsidiary which operates in Singapore are required to participate in a central provident fund operated by the local government. The subsidiary operating in Singapore is required to make contributions for its employees who are registered as residents to the central provident fund. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central provident fund.

#### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Share-based payments *(continued)*

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.



## Notes to the Financial Statements

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

##### *Impairment of assets*

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

##### *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 described below.

##### *Provision for obsolete and slow-moving inventories*

At the end of the reporting period, the management assessed the provision of estimation for obsolete and slow-moving inventories due to a change in products sold in recent years and the latest experience of selling merchandise of similar nature. Inventory provision was provided at an accelerated rate for the unused handbags (other than certain classical brand handbags) and second-hand handbags that are aged over 1 year and 120 days, respectively, and full provision was provided for the unused handbags and second-hand handbags that are aged over 4 years and 840 days, respectively.

##### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was HK\$2,013,000 (2016: HK\$2,013,000). Further details are given in note 14.

##### *Valuation of share options*

As explained in note 29, share option expense is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the profit or loss and share-based payment reserve.

## Notes to the Financial Statements

For the year ended 31 December 2017

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES** *(continued)***Fair value measurements and valuation processes**

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 17, 22 and 35 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

**4. OPERATING SEGMENT INFORMATION**

The board of directors is the chief operating decision maker. The Group's principal activity is the retail of handbags, fashion accessories, embellishments and spa and wellness products. Since it is the only operating segment of the Group, no further analysis thereof is presented. In determining the Group's geographical information, the revenue information is based on the locations of the customers, and the non-current assets information is based on the locations of the property, plant and equipment and deposits, or the location of the operation to which the intangible assets relate.

	Hong Kong	Macau	Mainland China	Singapore	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended 31 December 2017</b>					
Revenue from external customers	307,623	10,274	722	–	318,619
Non-current assets	14,413	26	1	–	14,440
Capital expenditure	3,895	–	–	–	3,895
<b>Year ended 31 December 2016</b>					
Revenue from external customers	291,580	8,576	18,646	–	318,802
Non-current assets	17,275	36	21	–	17,332
Capital expenditure	9,745	–	83	–	9,828

The non-current assets information excludes financial instruments and deferred tax assets.

**Information about major customers**

No customer of the Group has individually contributed 10% or more of the Group's total revenue during the year (2016: Nil) and no information about major customers is presented accordingly.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 4. OPERATING SEGMENT INFORMATION *(continued)*

#### Information about major products

	2017	2016
	HK\$'000	HK\$'000
Handbags	281,034	293,658
Other products	37,585	25,144
	<b>318,619</b>	<b>318,802</b>

### 5. REVENUE AND OTHER (LOSS)/INCOME AND GAINS, NET

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other (loss)/income and gains, net, is as follows:

	2017	2016
	HK\$'000	HK\$'000
<b>Revenue</b>		
Sale of goods	318,619	318,802
<b>Other (loss)/income and gains, net</b>		
Bank interest income	10	151
Change on fair value of other financial assets	(139)	221
Fair value loss on financial assets through profit and loss		
– Unrealised	(1,469)	–
– Realised	(3,376)	–
Gain/(loss) on disposal of available-for-sale investments	1,487	(572)
Impairment loss on available-for-sale investments	(19,720)	(2,600)
Loss on disposal of property, plant and equipment	(109)	(19)
Interest income on loan receivables	1,037	–
Gain on acquisition of a subsidiary	58	–
Gross rental income from a sublease arrangement	–	1,713
Interest income from investments in convertible bonds	335	212
Others	199	266
	<b>(21,687)</b>	<b>(628)</b>

## Notes to the Financial Statements

For the year ended 31 December 2017

## 6. FINANCE COSTS

	2017	2016
	HK\$'000	HK\$'000
Interest on bank overdrafts	2	7
Finance lease charges	248	199
Interest expenses on loan payable	694	–
	<b>944</b>	<b>206</b>

## 7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2017	2016
	HK\$'000	HK\$'000
Cost of inventories recognised as an expense	253,645	252,154
Write down for slow-moving inventories included in cost of inventories recognised as an expense	2,564	3,590
Depreciation		
– owned assets	4,083	5,881
– assets under finance lease	2,013	1,423
	6,096	7,304
Amortisation of intangible assets	565	565
Net exchange gain	(107)	(375)
Operating lease rentals in respect of rented premises		
– Minimum lease payments	39,776	41,998
– Contingent rentals	3,044	3,803
	42,820	45,801
Share-based payment expenses	6,385	–
Auditors' remuneration	1,000	1,000
Loss on write-off of property, plant and equipment	–	28
Loss on write-off from closure of store	17	3,975
Employee benefit expenses (excluding directors' emoluments)		
Salaries, wages and other benefits	29,637	32,111
Pension scheme contributions	1,179	1,204
Equity-settled share option expense	–	–
	<b>30,816</b>	<b>33,315</b>

## Notes to the Financial Statements

For the year ended 31 December 2017

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments is as follows:

	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Pension scheme contributions	Equity- settled share option expense	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended 31 December 2017</b>						
Executive directors:						
Mr. Yiu Kwan Tat (resigned on 13 April 2017)	-	1,026	-	6	-	1,032
Mr. Yiu Kwan Wai, Gary (resigned on 13 April 2017)	-	371	-	9	-	380
Mr. Choi Wai Kwok, Andy ( <i>chief executive</i> ) (resigned on 5 April 2017)	-	1,145	-	12	-	1,157
Mr. Hu Bo (appointed on 6 June 2016)	-	240	-	2	-	242
Mr. Cao Huijuan (appointed on 24 March 2017)	-	186	-	-	-	186
	-	2,968	-	29	-	2,997
Non-executive directors:						
Mr. Tam B Ray, Billy (resigned on 3 March 2017)	52	-	-	-	-	52
	52	-	-	-	-	52
Independent non-executive directors:						
Mr. So, Stephen Hon Cheung (resigned on 3 February 2017)	18	-	-	-	-	18
Mr. Chan Chi Hung	200	-	-	-	-	200
Mr. Tou Kin Chuen	200	-	-	-	-	200
Mr. Chau Shing Yip Colin (appointed on 6 June 2016) and (resigned on 19 December 2017)	120	-	-	-	-	120
	538	-	-	-	-	538
Sub-total:	590	2,968	-	29	-	3,587
Chief executive:						
Mr. Choi Wai Kwok, Andy (resigned on 11 January 2018)	-	2,574	-	13	-	2,587
	590	5,542	-	42	-	6,174

## Notes to the Financial Statements

For the year ended 31 December 2017

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENT (continued)

	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Pension scheme contributions	Equity- settled share option expense	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended 31 December 2016</b>						
Executive directors:						
Mr. Yiu Kwan Tat	–	4,328	2,000	18	–	6,346
Mr. Yiu Kwan Wai, Gary	–	1,462	2,000	29	–	3,491
Mr. Choi Wai Kwok, Andy (chief executive)	–	3,903	2,000	26	–	5,929
Mr. Hu Bo (appointed on 6 June 2016)	–	137	–	–	–	137
Ms. Cao Huijuan (appointed on 24 March 2017)	–	–	–	–	–	–
	–	9,830	6,000	73	–	15,903
Non-executive directors:						
Mr. Tam B Ray, Billy	300	–	–	–	–	300
Mr. Yuen Lai Yan, Darius (resigned on 25 August 2016)	133	–	–	–	–	133
	433	–	–	–	–	433
Independent non-executive directors:						
Mr. So, Stephen Hon Cheung	200	–	–	–	–	200
Mr. Chan Chi Hung	200	–	–	–	–	200
Mr. Tou Kin Chuen	200	–	–	–	–	200
Mr. Chau Shing Yip Colin (appointed on 6 June 2016)	68	–	–	–	–	68
	668	–	–	–	–	668
Sub-total:	1,101	9,830	6,000	73	–	17,004
Chief executive:						
Mr. Choi Wai Kwok, Andy	–	520	–	18	–	538
	1,101	10,350	6,000	91	–	17,542

There was no arrangement under which a director and chief executive has waived or agreed to waive any emoluments during the year (2016: Nil).

During the year ended 31 December 2017, no emoluments was paid by the Group to the directors and chief executive as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil).

## Notes to the Financial Statements

For the year ended 31 December 2017

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2016: three directors), details of whose remuneration are set out in note 8 above. Details of the emoluments for the year of the remaining two (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017	2016
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,964	1,980
Discretionary bonus	–	–
Pension scheme contributions	36	36
Equity-settled share option expense	–	–
	<b>2,000</b>	<b>2,016</b>

The number of non-director and non-chief executive, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2017	2016
Nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	1

During the current year, no share options were granted to non-director and non-chief executive highest paid employees. In prior years, share options were granted to non-director and non-chief executive highest paid employees in respect of his services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which had been recognised in the statement of profit or loss, was determined as at the date of grant and the amount included in the financial statements for current year was included in the above non-director and non-chief executive highest paid employee's remuneration disclosures.

During the year ended 31 December 2017, no remuneration was paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil).

## Notes to the Financial Statements

For the year ended 31 December 2017

## 10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

Pursuant to the Corporate Income Tax Law (the "PRC Tax Law") of the Peoples' Republic of China (the "PRC") being effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC during the year was 25% (2016: 25%) on their taxable profits. Macau complementary tax has been provided at progressive rates up to a maximum of 12% (2016: 12%) on the estimated taxable profits.

	2017	2016
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the year	132	–
Over-provision in prior years	–	(180)
Current – Elsewhere		
Charge for the year	192	–
Underprovision in prior years	–	57
Deferred	(180)	(164)
Total tax charge for the year	<b>144</b>	<b>(287)</b>

A reconciliation of the income tax expense applicable to loss before tax at the statutory tax rates to the tax expenses is as follows:

	Group	
	2017	2016
	HK\$'000	HK\$'000
Loss before tax	(81,292)	(74,072)
Tax at the statutory tax rates	(13,510)	(14,045)
Over provision in previous years	–	(326)
Tax effect of non-taxable income	(769)	(710)
Tax effect of non-deductible expenses	6,169	1,530
Tax effect of tax losses not recognised	8,254	13,264
Actual tax expenses	<b>144</b>	<b>(287)</b>

There was no income tax relating to components of other comprehensive income for the years ended 31 December 2017 and 2016.



## Notes to the Financial Statements

For the year ended 31 December 2017

### 11. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2017 (2016: Nil), nor has any dividend been proposed since the end of the reporting period.

### 12. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company of HK\$80,784,000 (2016: HK\$72,820,000) and the weighted average of 813,633,000 ordinary shares (2016: 704,940,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented. The diluted and basic loss per share are the same for both years.

### 13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Furniture, Fixtures and office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2017</b>					
Cost:					
At 1 January 2017	1,538	16,025	12,251	7,467	37,281
Additions	–	3,210	685	–	3,895
Disposal	–	(174)	(165)	–	(339)
Write-off	–	–	(34)	–	(34)
Exchange realignment	–	–	5	–	5
At 31 December 2017	1,538	19,061	12,742	7,467	40,808
Accumulated depreciation and impairment loss:					
At 1 January 2017	49	11,624	10,184	2,295	24,152
Depreciation charge for the year	13	2,378	1,692	2,013	6,096
Disposals	–	(74)	(156)	–	(230)
Write-off	–	–	(17)	–	(17)
Exchange realignment	–	–	5	–	5
At 31 December 2017	62	13,928	11,708	4,308	30,006
Carrying amount:					
At 31 December 2017	1,476	5,133	1,034	3,159	10,802

## Notes to the Financial Statements

For the year ended 31 December 2017

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Land and buildings	Leasehold improvements	Furniture, Fixtures and office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2016</b>					
Cost:					
At 1 January 2016	1,538	24,219	12,077	1,467	39,301
Additions	–	3,430	398	6,000	9,828
Disposal	–	–	(54)	–	(54)
Write-off	–	(11,660)	(161)	–	(11,821)
Exchange realignment	–	36	(9)	–	27
At 31 December 2016	1,538	16,025	12,251	7,467	37,281
Accumulated depreciation and impairment loss:					
At 1 January 2016	36	15,332	8,449	872	24,689
Depreciation charge for the year	13	3,952	1,916	1,423	7,304
Disposals	–	–	(28)	–	(28)
Write-off	–	(7,673)	(145)	–	(7,818)
Exchange realignment	–	13	(8)	–	5
At 31 December 2016	49	11,624	10,184	2,295	24,152
Carrying amount:					
At 31 December 2016	1,489	4,401	2,067	5,172	13,129

The carrying amount of the Group's motor vehicles held under finance lease amounted to HK\$3,159,000 (2016: HK\$5,172,000) as at 31 December 2017.

## Notes to the Financial Statements

For the year ended 31 December 2017

## 14. INTANGIBLE ASSETS

	Goodwill	Exclusive distribution right	Total
	HK\$'000	HK\$'000	HK\$'000
<b>2017</b>			
Cost:			
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	2,013	2,826	4,839
Accumulative amortisation:			
At 1 January 2016	–	71	71
Charge for the year	–	565	565
At 31 December 2016 and 1 January 2017	–	636	636
Charge for the year	–	565	565
At 31 December 2017	–	1,201	1,201
Carrying amount:			
At 31 December 2017	2,013	1,625	3,638
At 31 December 2016	2,013	2,190	4,203

Amortisation of exclusive distribution right of HK\$565,000 (2016: HK\$565,000) has been expensed in selling expenses and exclusive distribution right is calculated using the straight-line method over its useful lives of 5 years according to the contract.

**Impairment testing of goodwill**

Goodwill acquired through business combination is allocated to spa and wellness products cash-generating unit ("CGU") for impairment testing.

***Spa and wellness products – Hong Kong***

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate stated below. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates.

## Notes to the Financial Statements

For the year ended 31 December 2017

## 14. INTANGIBLE ASSETS (continued)

## Impairment testing of goodwill (continued)

## Spa and wellness products – Hong Kong (continued)

The key assumptions, long-term growth rate and discount rate used in the value-in-use calculations are as follows:

	2017	2016
	%	%
Gross margin	71.5	74.6
Long-term growth rate	3	3
Pre-tax discount rate	13.48	15.12

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections covering a 5-year period, based on financial budgets approved by management and a discount rate of 13.48% per annum. Cash flows beyond the 5-year period are extrapolated with growth rate of 3%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Based on the value-in-use calculation, the directors determine that there is no impairment.

## 15. SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of Incorporation/ Establishment and business	Issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Milan Station (BVI) Limited ("MS (BVI)")	British Virgin Islands ("BVI")/ Hong Kong	US\$4	100	–	Investment holding
Milan Station (Hong Kong) Limited ("MS (HK)")	Hong Kong	HK\$10,000	–	100	Investment holding
Milan Station (Tsuen Wan) Limited	Hong Kong	HK\$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation

## Notes to the Financial Statements

For the year ended 31 December 2017

## 15. SUBSIDIARIES (continued)

Name	Place of Incorporation/ Establishment and business	Issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Milan Station (TST) Limited	Hong Kong	HK\$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station Fashion (TST) Limited	Hong Kong	HK\$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (Causeway Bay) Limited	Hong Kong	HK\$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station Trading Limited	Hong Kong	HK\$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (Central) Limited	Hong Kong	HK\$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Trilink Global Limited	BVI/Hong Kong	US\$1	–	100	Investment holding
Milan Station (Asia) Limited	Hong Kong	HK\$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation

## Notes to the Financial Statements

For the year ended 31 December 2017

## 15. SUBSIDIARIES (continued)

Name	Place of Incorporation/ Establishment and business	Issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Milan Station (Macau) Limited ("MS (Macau)")	Macau	MOP30,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (PRC) Limited	BVI/Hong Kong	US\$2	–	100	Investment holding
Milan Station (PRC) Limited ("MS (PRC)")	Hong Kong	HK\$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Milan Station (Kwun Tong) Limited	Hong Kong	HK\$10,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
米蘭站亞太零售 (北京)有限公司*	The PRC/ Mainland China	RMB32,000,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
米蘭站(上海)有限公司* ("MS (SH)")	The PRC/ Mainland China	RMB34,000,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation
Standpoint Global Limited ("Standpoint Global")	BVI/Hong Kong	US\$1	–	100	Investment holding
WLS Limited	Hong Kong	HK\$40,000	–	51	Engaged in retailing of spa and wellness products
Brenda Enterprises Limited	Hong Kong	HK\$2	–	100	Engaged in money lending business

\* Registered as wholly-foreign-owned enterprises under the laws of the PRC.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 15. SUBSIDIARIES *(continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

During the year ended 31 December 2017, the Group deregistered the remaining 70% of interest of the subsidiaries, 包包站貿易(成都)有限公司, totalling of HK\$5,699,000.

### 16. (a) AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	HK\$'000	HK\$'000
Listed equity investments, at fair value		
Hong Kong	3,582	91,306

Available-for-sale investments are stated at fair values which are determined with reference of quoted market bid prices.

The fair values of the listed equity securities (exclude suspended trading security as described below) are determined based on the quoted market closing prices available on the relevant stock exchanges at the end of the reporting period.

At 31st December 2017, the fair value of suspended trading security listed in Hong Kong with the amount of approximately HK\$812,000 was reference to the valuation carried by Royson Valuation Advisory Limited, an independent qualified professional valuers. The fair value of suspended trading security listed in Hong Kong was valued by using the market approach at 31 December 2017. The discount rate is used to reflect the risk of exposure to corporate governance, illiquidity and financial distress etc. perceived by market participants who hold the suspended shares with remote likelihood of trade resumption.

As at 31 December 2016, the listed equity investments which were stated at fair value with reference to the quoted market bid price in the Stock Exchange or fair value basis of a valuation carried out by independent qualified professional valuer not connected to the Group. At the end of the year, there was a fair value gain in the investment of HK\$65,305,000 recognised in other comprehensive income, which was reflected in the "investment revaluation reserve".

During the year ended 31 December 2016, as the result of the unexpected poor performance of the sales of handbags, fashion accessories and embellishments operation, the impairment review by the directors of the Company for unlisted equity investments and accordingly an impairment of approximately HK\$2,600,000 was recognised during the year ended 31 December 2016.

### 16. (b) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	HK\$'000	HK\$'000
Listed securities		
– Equity securities listed in Hong Kong	16,412	–

Financial assets at fair value through profit or loss are stated at fair value which are determined with reference to quoted market bid prices.

## Notes to the Financial Statements

For the year ended 31 December 2017

## 17. INVESTMENTS IN CONVERTIBLE BONDS

On 14 October 2016, the Company subscribed convertible bonds (“CBs”) issued by China e-Wallet Payment Group Limited (formerly known as RCG Holdings Limited) (“CEWPG”) in an aggregate principal amount of HK\$10,000,000 at a coupon rate of 2.5% per annum payable on the date of redemption with a maturity date of first anniversary of the issue date (“maturity date”) which are denominated in HK\$. The CBs entitle the bondholders to convert them into shares of CEWPG at any time following the relevant date of issue until the maturity date, at a conversion price per share HK\$0.250, subject to anti-dilutive clauses.

The fair values of the CBs and its components on initial recognition are determined based on the valuation conducted by an independent professional valuer. On initial recognition, the fair value of the debt component of CBs is determined using the prevailing market interest rate of similar non-convertible debts and is carried at amortised cost subsequently. The effective interest rate is 13.46%. The fair value of the embedded conversion options of CBs as at the acquisition date and 31 December 2016 are calculated using the Binomial Model. The inputs into the model were as follows:

	14 October 2016	31 December 2016	4 May 2017
Stock price	HK\$0.71	HK\$0.65	HK\$0.57
Exercise price	HK\$2.5	HK\$2.5	HK\$2.5
Risk-free rate ( <i>note a</i> )	0.63%	1.29%	0.90%
Expected volatility ( <i>note b</i> )	85.73%	84.44%	90.57%
Expected dividend yield ( <i>note c</i> )	0.00%	0.00%	0.00%
Option life	3 years	2.78 years	2.45 years

*Note*

- (a) The rate was determined with reference to Hong Kong Dollar Hong Kong Sovereign Base Curve.
- (b) Based on the historical price volatility of CEWPG over the bond period.
- (c) Estimated by reference to the historical dividend payout of CEWPG.

During the year ended 31 December 2017, the Group recognised fair value loss of the derivative component of investments in convertible bonds of other financial assets of approximately HK\$139,000, in other loss and effective interest income from investments in convertible bonds of approximately HK\$335,000 in other income.

During the year ended 31 December 2016, the Group recognised fair value gain of the derivative component of investments in convertible bonds of other financial assets of approximately HK\$221,000 in other gains and effective interest income from investments in convertible bonds of approximately HK\$212,000 in other income.

As at 31 December 2016, the carrying amounts of the debt and the derivative components of the investments in convertible bonds are HK\$7,468,000 and HK\$2,911,000 respectively. During the year ended 31 December 2017, all investment in CBs were converted into the shares.



## Notes to the Financial Statements

For the year ended 31 December 2017

### 17. INVESTMENTS IN CONVERTIBLE BONDS *(continued)*

The CBs recognised in the statement of financial position was calculated, as follows:

	Debt components	Derivative components
	HK\$'000	HK\$'000
At 1 January 2016	–	–
Subscribed CBs	7,310	2,690
Change in fair value	–	221
Interest income calculated at an effective interest rate of 13.46%	212	–
Interest received	(54)	–
	<b>7,468</b>	<b>2,911</b>
At 31 December 2016 and 1 January 2017	7,468	2,911
Change in fair value	–	(139)
Interest income calculated at an effective interest rate of 13.46%	335	–
Interest received	(82)	–
Conversion of CBs	(7,721)	(2,772)
	<b>–</b>	<b>–</b>

### 18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	HK\$'000	HK\$'000
Prepayments	8,073	31,971
Deposits <i>(note (i))</i>	13,780	15,898
Other receivables	5,836	5,918
	<b>27,689</b>	<b>53,787</b>
Less: Non-current portion	(2,378)	(2,314)
	<b>25,311</b>	<b>51,473</b>

*Note*

- (i) During the year ended 31 December 2016, written off of rental deposits of approximately HK\$2,414,000 incurred from the closure of store, recognised administrative expenses in consolidated statement of profit or loss and other comprehensive income.

At 31 December 2017 and 2016, the balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances have no recent history of default.

## Notes to the Financial Statements

For the year ended 31 December 2017

## 19. INVENTORIES

	2017	2016
	HK\$'000	HK\$'000
Goods held for resale	46,729	63,112

## 20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2017	2016
	HK\$'000	HK\$'000
Within 1 month	4,830	4,076
1 to 2 months	91	12
2 to 3 months	6	15
Over 3 months	1,003	169
	5,930	4,272

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK\$'000	HK\$'000
Neither past due nor impaired	4,902	4,076
1 to 3 months past due	161	29
Over 3 months past due	867	167
	5,930	4,272

All receivables that were neither past due nor impaired relate to receivables from a number of customers for whom there was no recent history of default.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 21. LOAN RECEIVABLES

The Group's loan receivables, which arise from the money lending business in Hong Kong, secured loan receivable are secured collaterals provided by customers, bearing interest and are repayable with fixed terms agreed with Group's customers.

(a) An aged analysis of the loan receivables as at the reporting period, based on the terms of loan is as follows:

	2017
	HK\$'000
Within 3 months	1,226
3 to 6 months	7
Over 6 months	3,496
	<b>4,729</b>

The loan to customers were repaid in accordance with the terms of loan agreements, further details on the Group's policy are set out in note 35.

At the end of each reporting date, the Group's loan receivables were individually assessed for impairment. The Group encountered difficulties in collection of certain loan receivables and appropriate allowance for bad and doubtful debts has been made against these loan receivables. The individually impaired loan receivables are recognised based on the credit history of the borrowers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific allowance for bad and doubtful debts was recognised. There were no impairment loss recognised for the years ended 31 December 2017.

The Group has concentration of credit risk from five highest borrowers of HK\$4,729,000(2016: Nil) in total at 31 December 2017.

#### (b) Loan receivables that are not impaired

The ageing analysis of loan receivable that are neither past due nor impaired and that are past due but not impaired are as follows:

	2017	2016
	HK\$'000	HK\$'000
Neither past due nor impaired	4,729	–
Less than 6 months past due	–	–
Over 6 months past due	–	–
	<b>4,729</b>	–

Loan receivables that neither past due nor impaired are related to all loans are currently under contract.

## Notes to the Financial Statements

For the year ended 31 December 2017

**22. OTHER FINANCIAL ASSETS**

	2017	2016
	HK\$'000	HK\$'000
Derivative financial instruments, at fair value (note 17)	–	2,911

**23. CASH AND CASH EQUIVALENTS**

	2017	2016
	HK\$'000	HK\$'000
Cash and bank balances	30,348	50,797

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$1,071,000 (2016: HK\$9,276,000). RMB is not freely convertible into other currencies. Under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposits rates. The bank balances are deposited with creditworthy banks with no recent history of default.

**24. TRADE AND OTHER PAYABLES**

	2017	2016
	HK\$'000	HK\$'000
Trade payables (Note iv)	464	8,603
Accrued liabilities	8,287	5,413
Other payables (Note i)	1,496	1,058
Other liabilities	46	150
Amount due to non-controlling interest (Note iii)	3,960	3,960
Deposit received	3,004	3,197
Loan payables (Note ii)	7,909	–
	<b>25,166</b>	<b>22,381</b>

Notes:

- (i) Other payables are non-interest-bearing and repayable on demand.
- (ii) Loan payables are bearing the interest at 5% per annum.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 24. TRADE AND OTHER PAYABLES (continued)

Notes: (continued)

- (iii) The amount due to non-controlling interest is unsecured, interest free and repayable on demand.
- (iv) An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK\$'000	HK\$'000
Within 1 month	446	3,036
1 to 2 months	–	5,520
2 to 3 months	–	–
Over 3 months	18	47
	<b>464</b>	<b>8,603</b>

The credit period on purchase of goods range from 0 to 30 days.

### 25. OBLIGATIONS UNDER FINANCE LEASES

The Group leases motor vehicles under finance leases. At 31 December 2017 and 2016, the total future minimum lease payments under the finance leases and their present values were as follows:

	Minimum lease payments 2017	Minimum lease payments 2016	Present value of minimum lease payments 2017	Present value of minimum lease payments 2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	1,475	1,717	1,312	1,469
On the second year	1,335	1,475	1,246	1,312
In the third to fifth years, inclusive	890	2,225	872	2,118
Total minimum finance lease payments	<b>3,700</b>	5,417	<b>3,430</b>	4,899
Future finance charges	(270)	(518)		
Total net finance lease payables	<b>3,430</b>	4,899		
Portion classified as current liabilities	<b>(1,312)</b>	(1,469)		
Non-current portion	<b>2,118</b>	3,430		

## Notes to the Financial Statements

For the year ended 31 December 2017

## 26. PROVISIONS

	2017	2016
	HK\$'000	HK\$'000
<b>Provision for reinstatement costs</b>		
Analysed for reporting purposes as:		
Non-current liabilities	90	239
	<b>90</b>	<b>239</b>
		HK\$'000
<b>Provision for reinstatement costs</b>		
At 1 January 2017		239
Amounts utilised during the year		(149)
At 31 December 2017		<b>90</b>

## 27. DEFERRED TAX

## a) Deferred tax assets and liabilities recognised

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

i) *Deferred tax arising from*

	Depreciation allowance in excess of related depreciation	Fair value adjustment on exclusive distribution right upon business combination	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	(322)	(466)	(788)
Debited to the consolidated statement of profit or loss during the year ( <i>Note 10</i> )	71	93	164
At 31 December 2016 and 1 January 2017	(251)	(373)	(624)
Debited to the consolidated statement of profit or loss during the year ( <i>Note 10</i> )	87	93	180
At 31 December 2017	<b>(164)</b>	<b>(280)</b>	<b>(444)</b>

## Notes to the Financial Statements

For the year ended 31 December 2017

### 27. DEFERRED TAX *(continued)*

#### a) Deferred tax assets and liabilities recognised *(continued)*

##### ii) Reconciliation to the consolidated statement of financial position

	2017	2016
	HK\$'000	HK\$'000
Net deferred tax assets recognised in the consolidated statement of financial position	–	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	(444)	(624)
	<b>(444)</b>	<b>(624)</b>

#### b) Deferred tax assets not recognised

Certain subsidiaries of the Group have tax losses arising in Hong Kong in total of HK\$74,569,000 (2016: HK\$53,262,000) as at 31 December 2017 that are available indefinitely for offsetting against their future taxable profits. Deferred tax assets have not been recognised in respect of these losses as these subsidiaries have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

#### c) Deferred tax liabilities not recognised

As at 31 December 2017 and 2016, the Group had no other significant potential unprovided deferred tax liabilities not recognised.

### 28. SHARE CAPITAL

	2017	2016
	HK\$'000	HK\$'000
Authorised: 2,000,000,000 ordinary shares of HK\$0.01 each	<b>20,000</b>	20,000

## Notes to the Financial Statements

For the year ended 31 December 2017

**28. SHARE CAPITAL** *(continued)*

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital
	'000	HK\$'000
At 1 January 2016	677,487	6,775
Issue of shares upon exercise of share options <i>(note (i))</i>	650	6
Issue of share upon placing of shares <i>(note (ii))</i>	135,496	1,355
At 31 December 2016, 1 January 2017 and 31 December 2017	813,633	8,136

*Note:*

- (i) During the year ended 31 December 2016, 650,000 ordinary shares of HK\$0.1 each were issued as a result of exercise of share option under the 2014 Scheme.
- (ii) On 3 October 2016, the Company and the placing agent entered into the placing agreement pursuant to which the placing agent agreed to place, on a best endeavour basis, to not less than six independent placees for up to 135,496,000 new shares at a price of HK\$0.329 per placing share. The placing was completed on 19 October 2016. The net proceeds of placing was used as general working capital as intended.

**29. SHARE OPTION SCHEME**

On 28 April 2011, the Company operates a share option scheme (the "Scheme") 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 Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, consultants, advisers and the Company's shareholders. The Scheme became effective on 23 May 2011 upon the listing of the Company's shares on the Stock Exchange. The Scheme will be in force for a period of 10 years commencing on the date on which the Scheme was adopted.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the 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 in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their 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 price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.



## Notes to the Financial Statements

For the year ended 31 December 2017

### 29. SHARE OPTION SCHEME *(continued)*

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and shall commence at the grant date or commence after a vesting period of one year and end on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

The following share options were outstanding under the Scheme during the year:

	2017		2016	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	HK\$ per share	'000	HK\$ per share	'000
At 1 January	0.63	24,726	0.795	32,576
Granted during the year	0.175	67,420	–	–
Lapsed during the year	0.648	(11,241)	1.377	(7,200)
Exercised during the year	–	–	0.616	(650)
Outstanding at 31 December	0.25	80,905	0.63	24,726
Exercisable at 31 December	0.25	80,905	0.63	24,726

## Notes to the Financial Statements

For the year ended 31 December 2017

## 29. SHARE OPTION SCHEME (continued)

The movements in share options granted under the Scheme during the year ended 31 December 2017 are shown below:

Name or category of participants	Number of share options						At 31 December 2017	Date of grant of share options	Validity period of share options	Exercise price of share options HK\$ per share
	At 1 January 2017	Granted during the year	Exercised during the year (Note)	Expired during the year	Reclassified during the year	Lapsed during the year				
<b>Executive Directors</b>										
Mr. Yiu Kwan Tat (resigned on 13 April 2017)	6,740,000	-	-	-	-	-	6,740,000	11-7-14	11-7-15 to 10-7-19	0.616
Mr. Yiu Kwan Wai, Gary (resigned on 13 April 2017)	6,740,000	-	-	-	-	(6,740,000)	-	11-7-14	11-7-15 to 10-7-19	0.616
Mr. Choi Wai Kwok, Andy (resigned on 5 April 2017)	3,900,000	-	-	-	-	(3,900,000)	-	11-7-14	11-7-15 to 10-7-19	0.616
<b>Non-executive Directors</b>										
Mr. Tam B Ray, Billy (resigned on 3 March 2017)	300,000	-	-	-	-	(300,000)	-	13-5-15	13-5-15 to 12-5-20	1.210
<b>Independent Non-executive Directors</b>										
Mr. So, Stephen Hon Cheung (resigned on 3 February 2017)	300,000	-	-	-	-	(300,000)	-	13-5-15	13-5-15 to 12-5-20	1.210
	17,980,000	-	-	-	-	(11,240,000)	6,740,000			
<b>Other employees</b>										
In aggregate	6,746,000	-	-	-	-	(1,000)	6,745,000	11-7-14	11-7-15 to 10-7-19	0.616
	-	67,420,000	-	-	-	-	67,420,000	27-7-17	27-7-17 to 26-7-22	0.175
	24,726,000	67,420,000	-	-	-	(11,241,000)	80,905,000			

The weighted average share price at the date of exercise for shares options exercised during 2016 was HK\$1.03. No shares options were exercised during this year.

The options outstanding at 31 December 2017 had exercise prices of HK\$0.616 or HK\$0.175 (2016: HK\$0.616 or HK\$1.21) and a weighted average remaining contractual life of 4.03 years (2016: 2.55 years).

## Notes to the Financial Statements

For the year ended 31 December 2017

### 29. SHARE OPTION SCHEME *(continued)*

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2017			
Number of options	Exercise price	Exercise period	
'000	HK\$ per share		
13,485	0.616	11 July 2015 to 10 July 2019	
67,420	0.175	27 July 2017 to 10 July 2022	
<b>80,905</b>			

2016			
Number of options	Exercise price	Exercise period	
'000	HK\$ per share		
600	1.21	13 May 2015 to 12 May 2020	
24,126	0.616	11 July 2015 to 10 July 2019	
<b>24,726</b>			

The fair value of share options were calculated using Binomial Model. The input into the model were as follow:

	2017
Dividend yield (%)	0
Expected volatility (%)	80.09
Risk-free interest rate (%)	1.214
Expected life of options (years)	5
Price of the Company's shares at the date of grant (HK\$ per share)	0.175

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

No other feature of the options granted was incorporated into the measurement of fair value. At the end of the reporting period, the Company had 80,905,000 (2016: 24,276,000) share options outstanding under the Scheme.

At the date of approval of these financial statements, the Company had 80,905,000 (2016: 24,276,000) share options outstanding under the Scheme, which represented approximately 9.94% (2016: 2.98%) of the Company's shares in issue as at that date.

During the year ended 31 December 2017, there were 67,420,000 share options granted and HK\$6,385,000 were recognised to the consolidation statement of profit or loss.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the financial statements.

The capital reserve of the Group represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the group reorganisation on 28 April 2011 and the nominal value of the ordinary shares of a subsidiary of the Company in exchange therefor.

The merger reserve represents the excess of the consideration for acquiring subsidiaries over the nominal value of the paid-up capital of the subsidiaries acquired.

In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of the subsidiaries' registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

The share option reserve relates to share options granted to directors and employees under the Company's share option scheme. Further information about share option is set out in note 29.

### 31. BUSINESS COMBINATION

On 29 March 2017, the Group entered into an acquisition agreement with an independent third party in relation to the acquisition of entire equity interest of Brenda Enterprises Limited, a licensed money lender that is regulated under the Money Lenders Ordinance in Hong Kong in a consideration of HK\$1,700,000. The fair values of the identifiable assets and liabilities of entire equity interest of Brenda Enterprises Limited as at the date of acquisition were as follows:

	HK\$'000
Cash and bank balances	1,861
Loan receivables	26,144
Accrual and other payables	(67)
Loan payables	(26,180)
	<hr/>
Total identifiable net assets at fair value	1,758
Gain on acquisition of a subsidiary	(58)
	<hr/>
Satisfied by cash	1,700
	<hr/>

## Notes to the Financial Statements

For the year ended 31 December 2017

### 31. BUSINESS COMBINATION *(continued)*

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK\$'000
Cash consideration	1,700
Less: cash and bank balances acquired	(1,861)
Net inflow of cash and cash equivalents included in cash flows from investing activities	<u>(161)</u>

Since the acquisition, Brenda Enterprises Limited contributed HK\$1,039,000 to the Group's other income and profit for the year of HK\$237,000 to the consolidated loss for the year between the date of acquisition and the end of the reporting period. Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been HK\$1,939,000 and HK\$654,000, respectively. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, or is it intended to be a projection of future results.

### 32. MATERIAL RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the year:

		2017	2016
	Notes	HK'000	HK'000
Rental expenses paid to related companies	(i), (a) to (b)	<b>8,112</b>	8,112
Purchases from a related company	(ii), (c)	<b>1,657</b>	44
Legal and professional expenses to a related company	(iii), (d)	<b>34</b>	66

Notes:

- (i) The Group has entered into lease agreements with certain related companies of which Mr. Yiu Kwan Tat ("Mr. Yiu"), Mr. Yiu Kwan Wai, Gary and Ms. Yiu Sau Wai ("Ms. Yiu") are also directors of these related companies. The rental expenses paid to these related companies were based on mutually agreed terms. Ms. Yiu, Mr. Yiu, Mr. Yiu Kwan Wai, Gary have resigned as a director of the Company on 17 February 2014, 13 April 2017 and 13 April 2017 respectively.
- (ii) Purchases from a related company, in which Mr. Yiu has beneficial interest, were made on mutually agreed terms.
- (iii) Legal and professional expenses to a related company, in which Mr. Tam B Ray, Billy, a non-executive director of the Company, is a partner, were made on mutually agreed terms. Mr. Tam B Ray, Billy has resigned as a non-executive director of the Company on 3 March 2017.

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 32. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) The Group had the following material transactions with related parties during the year:  
*(continued)*

*Notes:*

- (a) Milan Station (Causeway Bay) Limited ("MS (CWB)"), a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of the Company, and Excel Trend Limited ("Excel Trend"), a company incorporated in Hong Kong with limited liability and indirectly beneficially wholly owned by Mr. Yiu Kwan Tat ("Mr. Yiu"), the former Chairman and an Executive Director, entered into a lease agreement in relation to the leasing of the premises situated at Areas E and F on the Ground Floor of Percival House, No. 83 Percival Street, Causeway Bay, Hong Kong for retail uses. The total amount of rental expenses (inclusive of government rent, government rates and management fees) paid by MS (CWB) for the year was HK\$7.6 million.
- (b) The Company, and Fully Art Limited ("Fully Art"), a company incorporated in Hong Kong with limited liability and the issued shares is owned as 50% by Mr. Yiu Kwan Wai, Gary, a former Executive Director and as to 50% by Ms. Yiu Sau Wai ("Ms. Yiu"), a former Executive Director, entered into a lease agreement in relation to the leasing of the premises situated at Flat B, 31st Floor of Tower 1, The Waterfront, 1 Austin Road West, Tsim Sha Tsui, Kowloon, Hong Kong for retail uses. The total amount of rental expenses (inclusive of government rent, government rates and management fees) paid by the Company for the year was HK\$0.5 million.
- (c) The Company and Yes Lady Finance Company Limited ("Yes Lady"), a company incorporated in Hong Kong with limited liability and 50% of the issued shares of which is owned by Mr. Yiu, entered into a master supply agreement ("Previous Master Supply Agreement") in relation to the provision of advising services by the Company and the supply of pre-owned luxury branded handbags and provision of advertising space by Yes Lady. The amount paid by the Company does not exceed the cap amount of HK\$3,000,000.
- (d) The Company and Messrs. Ho & Tam Solicitors ("Ho & Tam"), Mr. Tam B Ray, Billy, a Non-executive Director, is a partner, entered into a legal services agreement ("Previous Legal Services Agreement") in relation to provision of legal advisory services to the Group. The amount paid by the Company does not exceed the cap amount of HK\$3,000,000.

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 32. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

#### (b) Commitments under operating leases payable to related companies:

	2017	2016
	HK\$'000	HK\$'000
Within one year	–	8,112
In the second to fifth years, inclusive	–	–
	<b>–</b>	<b>8,112</b>

The leases related to the related companies run for an initial period of 1 to 2 years and the related commitments are included in note 33.

#### (c) Compensation of key management personnel of the Group:

	2017	2016
	HK\$'000	HK\$'000
Short-term employee benefits	8,491	20,673
Equity-settled share option expense	–	–
Post-employment benefits	96	163
	<b>8,587</b>	<b>20,836</b>

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

### 33. COMMITMENTS

#### Operating lease commitments

##### *The Group as lessee*

The Group leases certain of its shops, office premises and warehouse under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to five years. Certain rentals for the use of shops are determined by reference to the revenue of the relevant shops for the year and the rentals for certain shops will be escalated by a fixed percentage per annum.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
	HK\$'000	HK\$'000
Within one year	16,429	47,665
In the second to fifth years, inclusive	12,719	32,187
	<b>29,148</b>	<b>79,852</b>

## Notes to the Financial Statements

For the year ended 31 December 2017

## 34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**Financial assets**

	2017	2016
	HK\$'000	HK\$'000
Financial assets at fair value through profit or loss	16,412	–
Available-for-sale investments	3,582	91,306
Other financial assets	–	2,911
Loans and receivables:		
Investments in convertible bonds	–	7,468
Trade receivables	5,930	4,272
Loan receivables	4,729	–
Financial assets included in prepayments, deposits and other receivables	19,616	21,816
Cash and cash equivalents	30,348	50,797
	<b>60,623</b>	<b>84,353</b>
	<b>80,617</b>	<b>178,570</b>

**Financial liabilities**

	2017	2016
	HK\$'000	HK\$'000
Financial liabilities at amortised cost:		
Trade payables	464	8,603
Financial liabilities included in accrued liabilities and other payables	24,656	13,628
Obligations under finance leases	3,430	4,899
	<b>28,550</b>	<b>27,130</b>



## Notes to the Financial Statements

For the year ended 31 December 2017

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The Group has various other financial assets and liabilities such as available-for-sale investment and trade receivables, financial assets included in prepayments, other financial assets, deposits and other receivables, trade payables, financial liabilities included in accrued liabilities and other payables, and obligations under finance leases.

It is, and has been, throughout the year, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### Interest rate risk

At 31 December 2017 and 31 December 2016, the Group has no borrowing at variable interest rate and fixed interest rate that expire the Group's cash flow interest rate risk and fair value interest rate risk.

#### Price Risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated in equity securities listed in Hong Kong industry sector quoted in The Stock of Exchange of Hong Kong Limited for the year ended 31 December 2017. The directors of the Company will monitor the risks and consider hedging the risk exposure should the need arise.

#### Equity price sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the end of the reporting period.

If the prices had been 15% higher/lower:

- Other comprehensive income for the year ended 31 December 2017 would increase/decrease by HK\$2,573,000 (2016: HK\$13,696,000) as a result of change in fair value of available-for-sales financial assets.
- Profit or loss for the year ended 31 December 2017 would increase/decrease by HK\$2,462,000 as a result of change in fair value of financial assets at fair value through profit and loss.

## Notes to the Financial Statements

For the year ended 31 December 2017

**35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *(continued)***Foreign currency risk**

The Group carries on its trading transactions mainly in HK\$, RMB, US dollars, Euro and Singapore dollars ("SGD"). In respect of transactional exposures of the Group in currencies other than the functional currency, the Group ensures that the net exposure is kept to an acceptable level. It is the policy of the Group to continue maintaining the balances of its sales and purchases in the same currency. Since HK\$ is pegged to US dollars, there is no significant exposure expected on US dollars transactions conducted by entities which functional currency is HK\$. The Group does not use derivative financial instruments to protect against the volatility associated with foreign currency transactions and other financial assets and liabilities created in the ordinary course of business.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rates, with all other variables held constant, of the Group's loss before tax.

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in loss before tax
	%	HK\$'000
Year ended 31 December 2017		
If HK\$ weakens against RMB	5	(54)
If HK\$ strengthens against RMB	(5)	54
Year ended 31 December 2016		
If HK\$ weakens against RMB	5	(464)
If HK\$ strengthens against RMB	(5)	464

**Credit risk**

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

**Money lending business**

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approval and other monitoring procedures to ensure that follow-up action is taken for the recoverable amount. In addition, the Group reviews the recoverable amount of each individual's loan receivables at the end of each reporting period to ensure that adequate impairment loss are made for irrecoverable amounts. As at 31 December 2017, base on past experience, the directors of the Company are of the opinion that no provision for impairment on individual loans is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Money lending business *(continued)*

The Group manages and analyses the credit risk for each of their new and existing clients before standard payment terms and conditions are offered. If there is no independent rating, the Group assesses the credit quality of the customer based on the customer's financial position, past experience and other factors. The Group holds collateral against receivable and interest receivables in the form of mortgages over property. Majority of the collateral are residential, properties and all of the collaterals are located in Hong Kong. Individual risk limits are set based on the value of collaterals provided by customers and internal or external ratings in accordance with limits set by the directors. The utilisation of credit limits is regularly monitored.

The Group is not exposed to significant credit risk in relation to other financial assets such as cash and cash equivalents.

The Group reviews the recoverable amounts of individual debts at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables, and cash and cash equivalents are disclosed in notes 20 and 23 to the financial statements.

#### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	31 December 2017				Carrying amount
	On demand and less than 1 year	Over 1 year but less than 2 years	Over 2 years but less than 5 years	Total discounted cash outflows	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	464	–	–	464	464
Financial liabilities included in accrued liabilities and other payables	24,656	–	–	24,656	24,656
Obligations under finance leases	1,475	1,335	890	3,700	3,430
	26,595	1,335	890	28,820	28,550

## Notes to the Financial Statements

For the year ended 31 December 2017

**35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *(continued)***Liquidity risk** *(continued)*

	31 December 2016				Carrying amount
	On demand and less than 1 year	Over 1 year but less than 2 years	Over 2 years but less than 5 years	Total discounted cash outflows	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	8,603	–	–	8,603	8,603
Financial liabilities included in accrued liabilities and other payables	13,628	–	–	13,628	13,628
Obligations under finance leases	1,717	1,475	2,225	5,417	4,899
	23,948	1,475	2,225	27,648	27,130

**Fair value of financial instrument**

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

- i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2017 and 2016.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

## Notes to the Financial Statements

For the year ended 31 December 2017

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Fair value of financial instrument *(continued)*

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

At 31 December 2017	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets at fair value through profit or loss	15,600	–	812	16,412
Available-for-sale investment	3,582	–	–	3,582
At 31 December 2016	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sales investment	91,306	–	–	91,306
Other financial assets	–	–	2,911	2,911

On 6 June 2017, one of the Group's equity securities listed in Hong Kong classified as financial asset at fair value through profit or loss was suspended trading, therefore, no unadjusted quoted price in an active market is available. The Group's then measured fair value of suspended trading security by reference to the valuation carried by Royson Valuation Advisory Limited in which fair value was measured by using significant unobservable inputs, thus, the fair value of suspended trading security was reclassified to Level 3 valuations.

In estimating the fair value of an asset, the directors of the Company work closely with Royson Valuation Advisory Limited to establish the appropriate valuation techniques and inputs to the model. The management reports the findings to the directors at the end of each reporting period to explain the cause of fluctuations in fair value of the asset.

Information about the valuation techniques and inputs used in determining the fair value of contingent consideration receivables are disclosed above.

The Group's policy is to recognise transfer into and out of fair value hierarchy levels as of the date of the events or change in circumstances that caused the transfer.

## Notes to the Financial Statements

For the year ended 31 December 2017

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Fair value of financial instrument (continued)

The following table presents the changes in fair value of available-for-sale financial assets, other financial asset and financial assets at fair value through profit or loss which are classified as Level 1 and Level 3 valuations for the year ended 31 December 2017:

Financial assets	Fair value at 31 December		Fair value Hierarchy	Valuation technique(s) and key input(s) and sensitivity
	2017	2016		
	HK'000	HK'000		
Available-for-sale investment	3,582	91,306	Level 1	Quoted bid prices in active market
Other financial assets	–	2,911	Level 3	Partial differential equation Key Inputs: Risk free rate, volatility, share price, discount rate, dividend yield. As at 31 December 2016, 5% decrease in discount rate would result in decrease in fair value by approximately HK\$125,000
Financial assets at fair value through profit or loss	15,600	–	Level 1	Quoted bid prices in active market
	812	–	Level 3	Market approach Key Inputs: Discount rate of 81.5% The discount rate is negatively correlated to the fair value measurement of suspended trading security.

## Notes to the Financial Statements

For the year ended 31 December 2017

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Fair value of financial instrument *(continued)*

Reconciliation of Level 3 fair value measurements	Financial asset at fair value through profit or loss	Other financial Assets
	HK\$'000	HK\$'000
At 1 January 2017	–	2,911
Transfer from level valuation	4,392	–
Impairment loss on financial assets at fair value through profit or loss	(3,580)	–
Change of fair value of other financial assets	–	(139)
Conversion of CB	–	(2,772)
	812	–

#### Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1. As at 31 December 2017, the Group's current ratio was 4.7 (2016: 7.0).

## Notes to the Financial Statements

For the year ended 31 December 2017

**36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flow were, or future cashflows will be classified in the Group's consolidated statement of cash flows from financing activities.

	Loan payable	Obligations under finance lease	Total
	HK\$	HK\$	HK\$
At 1 January 2017	–	4,899	4,899
Acquisition of subsidiaries	26,180	–	26,180
Accrued interest	696	248	944
Interest paid	(696)	(248)	(944)
Financing cash outflows	(18,271)	(1,469)	(19,740)
At 31 December 2017	7,909	3,430	11,339



## Notes to the Financial Statements

For the year ended 31 December 2017

**37. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY**

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017	2016
	HK\$'000	HK\$'000
<b>Non-current assets</b>		
Property, plant and equipment	8	15
Investments in subsidiaries	43,700	42,000
Total non-current assets	43,708	42,015
<b>Current assets</b>		
Prepayments, deposits and other receivables	7,593	30,218
Due from subsidiaries	80,864	216,077
Cash and cash equivalents	1,914	6,384
Total current assets	90,371	252,679
<b>Current liabilities</b>		
Due to subsidiaries	31,468	31,467
Accrued liabilities and other payables	2,475	1,437
Total current liabilities	33,943	32,904
<b>Net current assets</b>	56,428	219,775
<b>Net assets</b>	100,136	261,790
<b>Equity</b>		
Issued capital	8,136	8,136
Reserves	92,000	253,654
<b>Total equity attributable to owners of the Company</b>	100,136	261,790

Approved and authorised for issue by the board of directors on 28 March 2018 and signed on its behalf by:

Hu Bo  
Director

Cao Huijuan  
Director

## Notes to the Financial Statements

For the year ended 31 December 2017

**37. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY***(continued)*

A summary of the Company's reserves is as follows:

	Share premium account	Capital reserve	Share option reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		<i>(Note (a))</i>			
At 1 January 2016	175,834	555,000	10,551	(526,378)	215,007
Loss for the year and total comprehensive loss for the year	–	–	–	(3,851)	(3,851)
Share issued under share option scheme <i>(Note (b))</i>	570	–	(176)	–	394
Issue of share upon placing	43,223	–	–	–	43,223
Share issue expense	(1,119)	–	–	–	(1,119)
Transfer of share option reserve upon the lapse of share options	–	–	(3,538)	3,538	–
At 31 December 2016 and 1 January 2017	218,508	555,000	6,837	(526,691)	253,654
Loss for the year and total comprehensive loss for the year	–	–	–	(168,039)	(168,039)
Share-based payment expenses	–	–	6,385	–	6,385
Transfer of share option reserve upon the lapse of share options	–	–	(3,175)	3,175	–
At 31 December 2017	218,508	555,000	10,047	(691,555)	92,000

*Notes:*

- (a) The Company's capital reserve represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation prior to the shares of the Company were listed on the Stock Exchange on 23 May 2011 (the "Listing"), over the nominal value of the Company's shares issued in exchange therefor.
- (b) The subscription rights attaching to 650,000 share options were exercised at the subscription price of HK\$0.616 per share (Note 29), resulting in the issue of 650,000 shares for a total cash consideration after nil expenses, of approximately HK\$400,000. An amount of approximately HK\$176,000 was transferred from the share option reserve to share capital and share premium upon the exercise of the share options.

**38. EVENTS AFTER THE REPORTING PERIOD**

There has no significant events took place subsequent to 31 December 2017.

**39. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

## Five Years Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years prepared on the basis set out in the notes below.

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>RESULTS</b>					
<b>REVENUE</b>	<b>318,619</b>	318,802	399,679	615,863	698,007
Cost of sales	(253,645)	(252,154)	(308,007)	(482,317)	(544,730)
Gross profit	64,974	66,648	91,672	133,546	153,277
Other income and gains, net	(21,687)	(628)	16,044	3,555	10,529
Selling expenses	(67,508)	(69,788)	(94,216)	(132,379)	(138,387)
Administrative and other operating expenses	(56,127)	(70,098)	(60,858)	(57,175)	(57,744)
Finance costs	(944)	(206)	(428)	(990)	(1,343)
LOSS BEFORE TAX	(81,292)	(74,072)	(47,786)	(53,443)	(33,668)
Income tax expense	(144)	287	(849)	(82)	(4,296)
LOSS FOR THE YEAR	(81,436)	(73,785)	(48,635)	(53,525)	(37,964)
Attributable to:					
Owners of the Company	(80,784)	(72,820)	(48,242)	(52,918)	(37,520)
Non-controlling interests	(652)	(965)	(393)	(607)	(444)
	(81,436)	(73,785)	(48,635)	(53,525)	(37,964)

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017	2016	2015	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	150,150	291,470	254,459	323,923	380,962
TOTAL LIABILITIES	(30,280)	(28,969)	(27,047)	(53,275)	(58,180)
NON-CONTROLLING INTERESTS	295	(2,799)	(3,901)	(3,079)	(3,777)
	120,165	259,702	223,511	267,569	319,005

*Note:*

The consolidated results of the Group for each of the two years ended 31 December 2017 and 2016 and the consolidated assets and liabilities of the Group as at 31 December 2017 and 2016 are those set out on pages 54 to 56 of this annual report.

The summary above does not form part of the audited financial statements.



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ANNUAL **2017** REPORT  
年報

米蘭站控股有限公司  
MILAN STATION HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Stock Code: 1150

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