ANNUAL REPORT

年報 2018

米蘭站控股有限公司

MILAN STATION HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Stock Code: 1150

米蘭站 Milan Station EXIT ®

Contents

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

Flat B, 3/F, Wah Shing
Industrial Building,
18 Cheung Shun Street
Cheung Sha Wan,
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

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

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 2018	2017
Profitability ratio			
Gross profit margin *(%)*	1	**19.5%**	20.4%
Net loss margin *(%)*	2	**(15.1)%**	(25.6)%
Return on assets *(%)*	3	**(34.8)%**	(54.1)%
Return on equity *(%)*	4	**(49.8)%**	(67.9)%
Liquidity ratio			
Current ratio	5	**3.3**	4.7
Quick ratio	6	**1.9**	3.0
Gearing ratio *(%)*	7	**7.8%**	2.9%
Inventory turnover days	8	**75**	79

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,

With the launches of the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Railway Link and the Hong Kong-Zhuhai-Macau Bridge in the second half of 2018, sound growth in the same-day Mainland tourist arrivals brings positive impacts to the retail market in Hong Kong. The retail market gets rid of the bottleneck and grows stably with the new consumption demand from the tourists brought by these two Greater Bay Area transportation infrastructures.

The Group continued to manage its luxury retail store portfolio by eliminating unprofitable stores and repositioning to the core tourist area. The Group kept adjusting 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.

The global tension raised by the Sino-US trade dispute continues in 2018. The China-US trade conflicts remains many uncertainties, which could still affect Hong Kong's external trade performance. Nevertheless, the luxury retail business of the Group was not adversely affected as the targeted tariffs list did not impose on the Group's retail business. The Mainland tourists' spending is one of the key demand drivers to the Group. However, the slowing down in the economic growth in China, coupled with the revaluation of Renminbi and the expanding prudent consumption behaviour, offset the benefits from the launches of cross-boundary infrastructures.

In view of the uncertainties of the effects from the potential global issues and local consumers' behavior, the management kept monitoring and continued to strength our core business and seek for better growth prospects and returns. 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 store portfolio from time to time to ensure that the site selected for the stores met the requirements for cost effectiveness.

The Group's policy on the repositioning of stores turned out to be effective during 2018. More specifically, 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 decreased by 18.7% to approximately HK$250.2 million as compared to last year. After the acquisition of THANN in 2015, the Group opened 6 THANN retail stores in local consumer shopping malls of Hong Kong business district. The Group also plans 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.

During the year, the Group eliminated unprofitable stores as we rightsized our portfolio by closing stores in Mainland China.

Director's Statement

The gambling industry and tourism industry in Macau steadily improve during the year. The Group's revenue from the Macau market increase by 36.9% to approximately HK$14.1 million. The Group will continue to adjust the product mix of point of sale in exclusive Clubhouses.

Looking forward to 2019, the major focus will be the conclusion on the Sino-US trade dispute. The trade dispute has continued almost 1 year. The local and tourist consumption expenditure faced downside pressure since then. Subsequent to the 90 days postponement on the impose of tariffs announced on 1st December 2018, the U.S. representatives states that the trade dispute is close to a conclusion. The conclusion is expected to bound back the prudent private consumption and eventually benefit the Group's core business.

Since the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Railway Link and the Hong Kong-Zhuhai-Macau Bridge were launched close to the last quarter in 2018., the positive impacts from the Greater Bay Area will continue to present in 2019. Mainland tourist arrivals in Hong Kong is on an encouragingly upward trend, coupled with positive impacts of the Belt and Road Initiative and the Greater Bay Area development. Hong Kong is specifically benefits as a luxury and international center for the entrance to China. 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. Going forward, the Group will continue to pursue opportunities to keep up with the evolving marketplace and optimize its corporate strategy of creating long-term value for shareholders.

Finally, I would like to take this opportunity to extend my sincere 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 2019, we will devote more energetic spirit and keep up our efforts to experiment with different approaches to business development with the aim of generating appropriate returns to our shareholders.

Hu Bo
Director

Hong Kong, 26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

Hong Kong's economy grew moderately for 2018 as a whole, recorded second year of above-trend growth. During 2018, Hong Kong's GDP grew by 3% in real terms, that was faster than the trend growth of 2.8% over the past ten years.

Hong Kong economic maintains moderate recovery pace with numerous positive factors, such as moderate global economic recovery, the broadly resilient domestic demand and stabilizing tourism sector. The launches of the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Railway Link and the Hong Kong-Zhuhai-Macau Bridge in 2018 have driven the growth of same-day Mainland tourist arrivals. According to the Hong Kong Tourism Board, the number of visits by mainland Chinese tourists to Hong Kong in 2018 grew by 14.8% as compared with the same period last year, of which same-day visitors and overnight visitors increased by 20.1% and 7.4% respectively.

Following the revaluation of Renminbi in 2017, the Hong Kong Dollars recorded an approximately 5% appreciation against the Renminbi during 2018. The appreciation in Hong Kong Dollars strengthened the local spending power and boosted the Group's performance in Hong Kong in 2018.

However, the economic grew was affected by the growing uncertainties and elevated Sino-US trade dispute, which slowed sharply in the latter part of the year in 2018. The Census and Statistics Department has published Report on Monthly Survey of Retail Sales, which indicated that a significant increase in the value of total retail sales for the first half year of 2018. Nevertheless, for 2018 as a whole, the growth decelerated visibly with the value of total retail sales increased by 8.8% in value and 7.6% in volume over 2017. Although the Sino-US trade dispute did not directly affect the core business of our Group, the overall customer consumption behavior turned to be more prudent and eventually slowed down the retail market in Hong Kong. And higher proportion of mainland tourists with lower spending power.

BUSINESS REVIEW

During the year, the Group's total revenue decreased by approximately 17% to approximately HK$264.3 million. The revenues generated in the markets of Hong Kong and Macau accounted for 94.7% and 5.3% respectively of the Group's revenue. The Group's gross profit at approximately HK$51.6 million, which was decreased by 20.5% as compared to last year. The net loss for the year decreased by 50.9% to HK$40 million mainly due to the decrease in rental expenses of retail stores due to elimination of unprofitable stores and absence of 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 decreased by 18.7% to approximately HK$250.2 million. The revenue came from the 7 "Milan Station" retail stores, the 6 "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 2018, the Group held the listed securities in Hong Kong with the fair value of HK$14 million under financial assets at fair value through profit or loss. The Group recognised a realised gain on disposal of financial assets at fair value through profit or loss of approximately HK$0.2 million and an impairment loss on financial assets at fair value through profit or loss of approximately HK$0.6 million. The Group also recognised a unrealised loss on financial assets at fair value through profit or loss of approximately HK$10.4 million. 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.

Mainland China

During the year, the Group eliminated unprofitable stores as we rightsized our portfolio by closing stores in Mainland China. As a results, no revenue was generated.

Macau

The gambling industry and tourism industry in Macau steadily improved during the year. The Group's revenue from the Macau market increased by 36.9% to approximately HK$14.1 million.

Significant Investments

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

Company	Stock code	As at 1 January 2018	Gain on disposal	Fair value gain/(loss)	As at 31 December 2018	Percentage of shareholding	Approximate percentage to the total assets
		HK$'000	HK$'000	HK$'000	HK$'000	(approximately)	
China e-Wallet Payment Group Limited	802	15,600	–	(7,880)	7,720	1.46%	6.7%
Others		4,394	166	(2,485)	6,275		5.5%
		19,994	166	(10,365)	13,995		

For the year ended 31 December 2018, the Group recognized an impairment loss on others financial assets at fair value through profit or loss of approximately HK$0.6 million.

Outlook

With a stable economic in 2018 on the Hong Kong retail market and the Group's growing performance, the Group is prudently optimistic about its business performance in 2019.

The domestic demand to the retail market is foreseeably cautious in the coming year. According to the salient features of economic performance released by the Government, there are several threats to the Hong Kong retail market in 2019. The global economies are facing decelerating growth due to the trade protectionism. The Sino-US trade dispute remains clouded by uncertainty. Further postponement on the tariff was announced and it is expected to come to a conclusion soon in the first half of 2019. 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 2-3% in 2019, and the medium-term forecast of real GDP growth rate to 2023 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 and the Greater Bay Area development. Such arrangements by the Chinese Government will bring positive impact to the retail market by bringing more tourists will high purchasing power to Hong Kong. The positive impacts to Hong Kong was reflected by the increase in the same-day Mainland tourist arrivals since the launches of Hong Kong-Zhuhai-Macau Bridge, and the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link and Road Initiative in the second half of 2018. The positive impacts are expected to benefit the Hong Kong retail market more in 2019 with more familiarize transportation arrangement of the Mainland tourists.

With the successful and effective cost controls implemented in 2018, 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 and core tourist area brought by the Greater Bay transportation infrastructures. We shall optimize our store network to maximize store profitability, and we shall simplify and centralize 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 management will closely monitor the global economic environment, the local retail market environment, and timely adjust the operating strategies. 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 2019 and continue our growth with the diverting business model.

FINANCIAL REVIEW

Revenue

During the year, total revenue decreased to approximately HK$264.3 million, representing a decrease of 17% as compared to approximately HK$318.6 million recorded in last year. Handbags were the most important product category for the Group, representing over 91.2% of the total revenue of the Group. The revenue generated from the sales of unused products decreased to approximately HK$187.5 million recorded in last year, representing 70.9% 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 2018, the revenue generated from the Hong Kong market was approximately HK$250.2 million, representing approximately 94.7% of the total revenue of the Group. No revenue was generated from the Mainland China market during the year as the Group was eliminated unprofitable stores in Mainland China. Revenue generated from the Macau market increased from approximately HK$10.3 million during the last year to approximately HK$14.1 million during the year ended 31 December 2018.

The table below sets out the breakdown of the Group's revenue recorded for the years ended 31 December 2018 and 2017 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				
	2018		2017		
		Percentage of total revenue		Percentage of total revenue	Percentage change in revenue
	HK$ million	%	HK$ million	%	%
By product categories (handbags and other products)					
Handbags	**241.1**	**91.2**	281.0	88.2	(14.2)
Other products*	**23.2**	**8.8**	37.6	11.8	(38.3)
Total	**264.3**	**100.0**	318.6	100.0	(17.0)
By product categories (unused and second-hand products)					
Unused products	**187.5**	**70.9**	233.2	73.2	(19.6)
Second-hand products	**76.8**	**29.1**	85.4	26.8	(10.1)
Total	**264.3**	**100.0**	318.6	100.0	(17.0)
By price range of products					
Within HK$10,000	**52.8**	**20.0**	72.0	22.6	(26.7)
HK$10,001 – HK$30,000	**48.7**	**18.4**	55.7	17.5	(12.6)
HK$30,001 – HK$50,000	**20.8**	**7.9**	18.2	5.7	14.3
Above HK$50,000	**142.0**	**53.7**	172.7	54.2	(17.8)
Total	**264.3**	**100.0**	318.6	100.0	(17.0)
By geographical locations					
Hong Kong	**250.2**	**94.7**	307.6	96.5	(18.7)
The PRC	**–**	**–**	0.7	0.2	(100.0)
Macau	**14.1**	**5.3**	10.3	3.3	36.9
Total	**264.3**	**100.0**	318.6	100.0	(17.0)

* Other products include natural aroma and skincare products and others accessories.

Management Discussion and Analysis

Cost of sales

For the year ended 31 December 2018, cost of sales for the Group was approximately HK$212.7 million, decreased by 16.2% 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$13.3 million to approximately HK$51.6 million, with its gross profit margin decreased slightly from 20.4% to 19.5%.

Inventory

The Group's total inventories as at 31 December 2018 and 2017 were HK$40.5 million and HK$46.7 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 75 days for the year ended 31 December 2018 (2017: 79 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	
	2018	2017
	HK$'000	HK$'000
Aging of inventories (handbags products)		
0 to 90 days	**12,549**	18,478
91 to 180 days	**8,410**	7,847
181 days to 1 year	**8,453**	7,969
Over 1 year	**8,456**	10,563
Total	**37,868**	44,857

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	
	2018	2017
	HK$'000	HK$'000
Aging of inventories (other products)		
0 to 45 days	**874**	256
46 to 90 days	**1,196**	731
91 days to 1 year	**375**	742
Over 1 year	**219**	143
Total	**2,664**	1,872

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	
	2018	2017
	HK$'000	HK$'000
Aging of inventories (handbags products over HK$50,000)		
0 to 90 days	**6,908**	11,057
91 to 180 days	**4,643**	3,667
181 days to 1 year	**4,373**	2,343
Over 1 year	**3,546**	2,553
Total	**19,470**	19,620

Other (loss)/income and gains, net

During the year ended 31 December 2018, other loss amounted to approximately HK$8.4 million, significant decreased by HK$13.3 million as compared to other loss amounted to approximately HK$21.7 million in last year. It was mainly attributable to absence of 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 2018, selling expenses of the Group were approximately HK$47.6 million, representing 18% of the Group's revenue (2017: approximately HK$67.5 million, representing 21.2% of the Group's revenue). Selling expenses decreased mainly due to the decrease in rental expenses of the retail stores resulting from the elimination of unprofitable stores.

Administrative and other operating expenses

Administrative and other operating expenses of the Group for the year ended 31 December 2018 amounted to approximately HK$36.7 million, decreased by approximately HK$19.5 million as compared to last year on a year-on-year basis, representing approximately 13.9% of the revenue. The Group's administrative and other operating expenses mainly consisted of the 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 salaries expenses and absence of a share based payment expenses of approximately HK$6.4 million.

Finance costs

Finance costs of the Group mainly consisted of interest expenses on bank borrowings and finance lease. Finance costs amounted to approximately HK$0.4 million in 2018, decreased by HK$0.6 million as compared to last year.

Loss attributable to the owners of the Company

Loss attributable to the owners of the Company for the year ended 31 December 2018 was approximately HK$40 million, representing an decrease of 50.5% from approximately HK$80.8 million for the year ended 31 December 2017. Loss per share attributable to the owners of the Company was approximately HK4.9 cents for the year ended 31 December 2018, as compared to approximately HK9.9 cents for the year ended 31 December 2017.

Employees and remuneration policy

As at 31 December 2018, the Group had a total of 67 employees (2017: 94 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.

Liquidity and financial resources

As at 31 December 2018 and 31 December 2017, the Group did not have any bank borrowing.

As at 31 December 2018, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK$22.6 million, HK$34.4 million and HK$80.5 million respectively (2017: approximately HK$30.3 million, HK$30.3 million and HK$120.2 million respectively). The Group's gearing ratio, current ratio and quick ratio as at 31 December 2018 were approximately 7.8%, 3.3 and 1.9 respectively (2017: 2.9%, 4.7 and 3.0 respectively).

Pledge of assets

As at 31 December 2018 and 31 December 2017, 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") and United States ("US") 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 2018, 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 2018 and 31 December 2017.

Biographical Details

EXECUTIVE DIRECTORS

Mr. Hu Bo, aged 42, was appointed as an Executive Director on 6 June 2016. He was graduated from Dongbei University of Finance and Economies in 2002. He has extensive experience in sales and marketing strategies and management. Prior joining to the Group, he was 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 34, 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. Prior joining to the Group, she was 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 46, 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, and a non-executive director of Build King Holdings 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 43, 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 35, 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.

SENIOR MANAGEMENT

Mr. Chan Hon Leung, aged 48, 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 45, 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.

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.

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 2018 (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 2018.

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.

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	Hu Bo	3/4
	Cao Huijuan	3/4
Independent Non-executive Directors	Chan Chi Hung	4/4
	Tou Kin Chuen	4/4
	Choi Kam Yan, Simon (appointed on 1 February 2018)	3/3

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 page 16 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.

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.

Pursuant to Code Provision A.6.7, independent non executive directors should attend general meetings of the Company. Owing to other business engagements, one independent non executive director, Mr. Chan Chi Hung was unable to attend the annual general meeting of the Company held on 6 June 2018.

Corporate Governance Report

The attendance of the Directors at the Annual General Meeting ("AGM") held on 6 June 2018, are as follows:

	Directors	AGM
Executive Directors	Hu Bo	0/1
	Cao Huijuan	0/1
Independent Non-executive Directors	Chan Chi Hung	0/1
	Tou Kin Chuen	1/1
	Choi Kam Yan, Simon (appointed on 1 February 2018)	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.

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 2018 is as follow:

	Directors	Course/seminar provided/ accredited by professional body	Reading materials
Executive Directors	Hu Bo	–	✓
	Cao Huijuan	–	✓
Independent Non-executive Directors	Chan Chi Hung	✓	–
	Tou Kin Chuen	✓	–
	Choi Kam Yan, Simon (appointed on 1 February 2018)	✓	–

BOARD NOMINATION POLICY

The Nomination Committee shall endeavor to find individuals of high integrity who have a solid record of accomplishment in their chosen fields and who possess the qualifications, qualities and skills to effectively represent the best interests of the Group and its shareholders. Candidates will be selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives. Candidates also will be assessed in the context of the then-current composition of the Board, the operating requirements of the Group. In conducting this assessment, the Nomination Committee will, in connection with its assessment and recommendation of candidates for director, consider diversity (including, but not limited to, gender, race, ethnicity, age, experience and skills) and such other factors as it deems appropriate given the then current and anticipated future needs of the Board and the Company, and to maintain a balance of perspectives, qualifications, qualities and skills on the Board.

The Nomination Committee considers the following qualifications at a minimum to be required of any Board members in recommending to the Board potential new board members, or the continued service of existing members:

- the highest professional and personal ethics;
- broad experience in business;
- ability to provide insights and practical wisdom based on their experience and expertise;
- commitment to enhancing shareholder value;
- sufficient time to effectively carry out their duties; their service on other boards of public companies should be limited to a reasonable number;
- compliance with legal and regulatory requirements; and
- ability to develop a good working relationship with other Board members and contribute to the Board's working relationship with senior management of the Group.

BOARD DIVERSITY POLICY

During the year, the Board adopted a Board diversity policy setting out the approach to achieve diversity on the Board. The Company recognizes and embraces the benefits of diversity of Board members. It endeavors to ensure that the Board had a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Group's business. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background and professional experience. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board. The Company will also take into account factors based on its own business model and specific needs from time to time.

The nomination committee reviewed the board diversity policy and achievement of objectives and effectiveness of the board diversity policy, and recommended the Board that the existing Board was appropriately structured and no change was required.

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.

Corporate Governance Report

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

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

	Remuneration Committee Members	Number of attendance/ Eligible to attended
Independent Non-executive Directors	Tou Kin Chuen *(Chairman)*	2/2
	Chan Chi Hung	2/2
Executive Director	Hu Bo	2/2

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 2018 is set out below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	2
HK$1,000,001 to HK$3,000,000	1
HK$3,000,001 to HK$6,500,000	–

Details of the remuneration of each Director for the year ended 31 December 2018 are set out in note 8 to the financial statements.

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:

	Nomination Committee Members	Number of attendance/Eligible to attended
Executive Director	Hu Bo *(Chairman)*	2/2
Independent Non-executive Directors	Chan Chi Hung	2/2
	Tou Kin Chuen	2/2

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.

(e) monitor the implementation of the board diversity policy.

(f) determine the policy, procedures and criteria for the nomination of directors.

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	Chan Chi Hung	2/2
	Tou Kin Chuen (Chairman)	2/2
	Choi Kam Yan, Simon (appointed on 1 February 2018)	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 2018 and the audited financial statements for the year ended 31 December 2017 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 2018 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.

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
	1,000

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.

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 2018 and for the year ended 31 December 2018, 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 39 to 45 of this annual report.

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.

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 2018, 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 2018.

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.

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
Flat B, 3/F,
Wah Shing Industrial Building,
18 Cheung Shun Street, Cheung Sha Wan,
Kowloon, Hong Kong

OR

Email: 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 2018.

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 16 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 2018 are provided in the "Director's Statement" and "Management Discussion and Analysis" on pages 5 to 6 and pages 7 to 15, respectively, of this annual report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 46 to 127 of this annual report.

The Board has resolved not to declare a final dividend for the year ended 31 December 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019 (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 Friday, 31 May 2019.

USE OF NET PROCEEDS

(i) The proceeds from the listing, after deduction of related issuance expenses, amounted to HK$10 million.

As at 31 December 2018, 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	Balance as at 31 December 2012	Amount utilised for the year end 31 December 2013	Balance as at 31 December 2013	Amount utilised for the year end 31 December 2014	Balance as at 31 December 2014	Amount utilised for the year end 31 December 2015	Balance as at 31 December 2015	Amount utilised for the year end 31 December 2016	Balance as at 31 December 2016	Amount utilised for the year end 31 December 2017	Balance as at 31 December 2017	Amount utilises for the year end 31 December 2018	Balance as at 31 December 2018
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
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	–	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	0.3	1.8
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	0.3	10.0

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 128 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 14 to the financial statements.

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 32 to 34 of this report.

Report of the Directors

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 2018, 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 2018 are set out in note 37 to the financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution amounted to approximately HK$25,122,000, 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 2018 of approximately HK$748,386,000. 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$nil.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2018, 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.

DIRECTORS

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

Executive Directors:
Mr. Hu Bo
Ms. Cao Huijuan

Independent Non-executive Directors:
Mr. Chan Chi Hung
Mr. Tou Kin Chuen
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. Tou Kin Chuen shall retire by rotation from office at the forthcoming annual general meeting. Each of Mr. Hu Bo and Mr. Tou Kin Chuen, 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:

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

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 page 16 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 2018 and 24 March 2019 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 renewed a letter of appointment and is appointed for an initial term of 1 year commencing on 1 February 2019.

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 commenting on 22 July 2018, 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.

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 2018.

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 2018.

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 2018, none of the Directors and the chief executive of the Company had any 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.

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. On 27 July 2017, 67,420,000 share options were granted by the Company under the Scheme.

During the year ended 31 December 2018, no share options were granted by the Company under the Scheme, no share options were exercised and 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 26 March 2018 (i.e. 813,633,000 shares).

The movements in share options granted under the Scheme during the year ended 31 December 2018 are shown below:

	Number of share options									
Name or category of participants	At 1 January 2018	Granted during the year	Exercised during the year *(Note)*	Expired during the year	Reclassified during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
Other employees										
In aggregate	13,485,000	–	–	–	–	–	13,485,000	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
	80,905,000	–	–	–	–	–	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.

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
Other employees	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.

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

As at 31 December 2018, 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 2018, 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.

		2018	2017
	Notes	**HK$'000**	HK$'000
Rental expenses paid to related companies	*(a)*	**6,048**	7,080

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 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.

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.

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 2018, save for certain derivations. The Corporate Governance Report is set out on pages 18 to 27 of this annual report.

ENVIRONMENTAL POLICIES AND SOCIAL RESPONSIBILITIES

In 2018, 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.

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".

DIVIDEND POLICY

The Company has adopted a dividend policy pursuant to which the Company may declare and distribute dividends to the shareholders of the Company.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors it may deem relevant at such time. Any payment of the dividend by the Company is also subject to any restrictions under the articles of association of the Company and all applicable laws and regulations.

The dividend policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

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 15 of this annual report and the section headed "Share Options" on pages 32 to 34 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 2018 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 18 to 27 of this annual report.

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 and 2018 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, 26 March 2019

Independent Auditors' Report

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

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

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 46 to 127, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the 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
Provision for obsolete and slow moving inventories	
Refer to note 3 and note 20 to the consolidated financial statements	
Management has assessed the provision of 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 2018, the carrying values of inventories were HK$40,532,000 (net of allowance of HK$2,399,000).	Our procedures in relation to management's assessment of provision for obsolete and slow moving inventories included: • 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 2018; • Testing the accuracy of the inventories ageing analysis as at 31 December 2018, on sample basis; • Assessing the reasonableness of the net realizable value of inventories and allowance of inventories estimated by the management; • Tracing the latest selling prices to the sales invoices, on sample basis; and • Evaluating the historical accuracy of the allowance of inventories estimation by management. We found the key assumptions were supported by the available evidence.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of intangible assets and goodwill Refer to note 3 and 15 to the consolidated financial statements As at 31 December 2018, the Group has intangible assets of approximately HK$1,060,000 and goodwill of approximately HK$2,013,000 relating to spa and wellness products business acquisitions in previous years. 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.	Our procedures in relation to management impairment assessment included: • Evaluating the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found that the assumptions were supported by the available evidence.
Allowance for expected credit losses of trade receivables Refer to note 21 to the consolidated financial statements As at 31 December 2018, the Group had gross trade receivables of approximately HKD3,715,000 (2017: HKD5,872,000) and provision for impairment of approximately HKD46,000 (2017: HKD58,000). In general, the credit terms granted by the Group to the customers ranged between 0 to 30 days (2017: 0 to 30 days). Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to management's allowance for expected credit losses of trade receivables as at 31 December 2018 included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis; • Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2018 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and • Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

Independent Auditors' Report

The Key Audit Matter	How the matter was addressed in our audit

Allowance for expected credit losses of loan receivables

Refer to Note 22 to the consolidated financial statements.

As at 31 December 2018, the Group's gross loan receivables amounted to HKD8,392,000 (2017: HKD4,627,000) and a provision for impairment of loan receivables of HKD108,000 (2017: HKD102,000) was recognised in the Group's consolidated statement of financial position.

The balance of provision for impairment of loan receivables represents the management's best estimates at the balance sheet date of expected credit losses under Hong Kong Financial Reporting Standard 9: Financial Instruments expected credit losses models.

Management assesses whether the credit risk of loan receivables have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their expected credit losses. The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following:

– Selection of appropriate model and determination of relevant key measurement parameters, including probability of default, loss given default and exposure at default;

– Criteria for determining whether or not there was a significant increase in credit risk or a default; and

– Economic indicator for forward-looking measurement, and the application of economic scenarios and weightings.

We focus on this area due to the magnitude of the loan receivables and the significant estimates and judgement involved in determining the expected credit impairment losses allowance on the loan receivables.

Our audit procedures in relation to management's assessment on a the expected credit losses allowance of loan receivables included:

- obtained understanding and tested the key control procedures performed by management, including its procedures on periodic review on overdue receivables and the assessment of expected credit losses allowance on the loan receivables;
- obtained understanding and evaluated the modelling methodologies for expected credit losses measurement, assessed the reasonableness of the model selection and key measurement parameters determination;
- for the historical information, discussed with management to obtained understanding of the management's identification of significant increase in credit risk, defaults and credit-impaired loans, corroborated management's explanation with supporting evidence;
- for forward-looking measurement, we assessed the reasonableness of economic indicator selection, economic scenarios and weightings application, assessed the reasonableness of the estimation by comparing with industry data; and
- checked major data inputs used in the expected credit losses models on sample basis to the Group's record.

Based on the above, we found that the estimates and judgement made by management in respect of the expected credit losses allowance and the collectability of the loan receivables were supportable by the available evidence.

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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditors' Report

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

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

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

- 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.

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, 26 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
REVENUE	5	**264,293**	318,619
Cost of sales		**(212,654)**	(253,645)
Gross profit		**51,639**	64,974
Other (loss)/income and gains, net	6	**(8,387)**	(21,687)
Selling expenses		**(47,574)**	(67,508)
Administrative and other operating expenses		**(36,656)**	(56,127)
Finance costs	7	**(361)**	(944)
LOSS BEFORE TAX	8	**(41,339)**	(81,292)
Income tax income/(expense)	11	**1,379**	(144)
LOSS FOR THE YEAR		**(39,960)**	(81,436)
Attributable to:			
Owners of the Company		**(40,012)**	(80,784)
Non-controlling interests		**52**	(652)
		(39,960)	(81,436)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Basic and diluted	13	**HK(4.9 cents)**	HK(9.9 cents)

The notes on pages 53 to 127 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	2018	2017
	HK$'000	HK$'000
LOSS FOR THE YEAR	(39,960)	(81,436)
OTHER COMPREHENSIVE INCOME/(LOSS):		
Item that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	619	167
Reclassification adjustment relating to available-for-sale investments disposed of during the year	–	(65,305)
Total other comprehensive income/(loss) for the year	619	(65,138)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(39,341)	(146,574)
Attributable to:		
Owners of the Company	(39,393)	(145,922)
Non-controlling interests	52	(652)
	(39,341)	(146,574)

The notes on pages 53 to 127 form part of these financial statements.

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**9,115**	10,802
Intangible assets	15	**3,073**	3,638
Available-for-sale investments	17(a)	**–**	3,582
Deposits	19	**3,368**	2,378
Total non-current assets		**15,556**	20,400
CURRENT ASSETS			
Inventories	20	**40,532**	46,729
Trade receivables	21	**3,715**	5,930
Loan receivables	22	**8,392**	4,729
Prepayments, deposits and other receivables	19	**9,872**	25,311
Financial assets at fair value through profit and loss	17(b)	**13,995**	16,412
Tax recoverable		**82**	291
Cash and cash equivalents	23	**22,554**	30,348
Total current assets		**99,142**	129,750
CURRENT LIABILITIES			
Trade and other payables	24	**27,401**	25,166
Obligations under finance leases	25	**2,286**	1,312
Tax payable		**409**	1,150
Total current liabilities		**30,096**	27,628
NET CURRENT ASSETS		**69,046**	102,122
TOTAL ASSETS LESS CURRENT LIABILITIES		**84,602**	122,522
NON-CURRENT LIABILITIES			
Obligations under finance leases	25	**3,976**	2,118
Provisions	26	**102**	90
Deferred tax liabilities	27	**220**	444
Total non-current liabilities		**4,298**	2,652
NET ASSETS		**80,304**	119,870
EQUITY			
Issued capital	28	**8,136**	8,136
Reserves	30	**72,411**	112,029
Equity attributable to owners of the Company		**80,547**	120,165
Non-controlling interests		**(243)**	(295)
TOTAL EQUITY		**80,304**	119,870

Approved and authorised for issue by the board of directors on 26 March 2019 and signed on its behalf by:

Hu Bo
Director

Cao Huijuan
Director

The notes on pages 53 to 127 form part of these financial statements.

Consolidated Statement of Changes In Equity

Year ended 31 December 2018

	Attributable to owners of the Company											
	Issued Capital	Share premium account	Capital reserve	Merger reserves	Statutory reserve fund	Investment revaluation reserve	Exchange fluctuation reserve	Share option reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000 *(note 30)*	HK$'000 *(note 30)*	HK$'000 *(note 30)*	HK$'000	HK$'000	HK$'000 *(note 30)*	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

Consolidated Statement of Changes In Equity

Year ended 31 December 2018

	Attributable to owners of the Company											
	Issued Capital	Share premium account	Capital reserve	Merger reserves	Statutory reserve fund	Investment revaluation reserve	Exchange fluctuation reserve	Share option reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000 *(note 30)*	HK$'000 *(note 30)*	HK$'000 *(note 30)*	HK$'000	HK$'000	HK$'000 *(note 30)*	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	8,136	218,508	10	(23,782)	1,729	–	(123)	10,047	(94,360)	120,165	(295)	119,870
Adoption of HKFRS 9	–	–	–	–	–	–	–	–	(225)	(225)	–	(225)
Adjustment balance at 1 January 2018	8,136	218,508	10	(23,782)	1,729	–	(123)	10,047	(94,585)	119,940	(295)	119,645
Loss for the year	–	–	–	–	–	–	–	–	(40,012)	(40,012)	52	(39,960)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	619	–	–	619	–	619
Total other comprehensive loss	–	–	–	–	–	–	619	–	–	619	–	619
Total comprehensive loss for the year	–	–	–	–	–	–	619	–	(40,012)	(39,393)	52	(39,341)
Deregistration of subsidiaries	–	–	–	–	(1,699)	–	–	–	1,699	–	–	–
At 31 December 2018	8,136	218,508	10	(23,782)	30	–	496	10,047	(132,898)	80,547	(243)	80,304

These reserve accounts comprise the consolidated reserves of HK$72,411,000 (2017: HK$112,029,000) in the consolidated statement of financial position.

The notes on pages 53 to 127 form part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(41,339)**	(81,292)
Adjustments for:			
Bank interest income	6	**(11)**	(10)
(Gain)/loss on disposal of property, plant and equipment	6	**(1,980)**	109
Gain on acquisition of a subsidiary		**–**	(58)
Loss on write-off of property, plant and equipment	8	**280**	17
Write down for slow-moving inventories, net	8	**2,399**	2,564
Depreciation	8	**6,132**	6,096
Amortisation of intangible assets	8	**565**	565
Impairment of available-for-sale investments	6	**–**	19,720
Allowance for expected credit losses on trade receivables	6	**(12)**	–
Allowance for expected credit losses on loan receivables	6	**6**	–
Allowance for expected credit losses on other receivables	6	**(57)**	–
Gain on disposal of available-for-sale investments	6	**–**	(1,487)
Interest income from investments in convertible bonds		**–**	(335)
Change of fair value of other financial asset	6	**–**	139
Fair value (gain)/loss on financial assets at fair value through profit and loss			
– Unrealised		**10,959**	1,469
– Realised		**(166)**	3,376
Share-based payment expenses		**–**	6,385
Finance costs	7	**361**	944
		(22,863)	(41,798)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Decrease in inventories		3,798	13,819
Decrease/(increase) in trade receivables		2,169	(1,658)
(Increase)/decrease in loan receivables		(3,771)	21,415
Decrease in prepayments, deposits and other receivable		14,441	26,180
Decrease in trade and other payables		(4,310)	(5,087)
Decrease in other liabilities		(46)	(104)
Increase/(decrease) in provisions		12	(149)
Cash used in operations		(10,570)	12,618
Hong Kong profits tax refunded		623	194
Net cash (used in)/generated from operating activities		(9,947)	12,812
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		11	10
Purchases of items of property, plant and equipment		(6,199)	(3,895)
Purchase of financial assets at fair value through profit or loss		(9,960)	(15,346)
Proceeds from disposal of property, plant and equipment		3,454	–
Proceeds from disposal of financial assets of fair value through profit or loss		5,166	4,582
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		(7,528)	(12,744)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in loan payable		14,500	–
Capital element of finance lease payables		2,832	(1,469)
Interest paid		(48)	(696)
Interest elements on finance lease rental payments		(313)	(248)
Repayment of loan payable		(7,909)	(18,271)
Net cash generated from/(used in) financing activities		9,062	(20,684)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(8,413)	(20,616)
Cash and cash equivalents at the beginning of the year		30,348	50,797
Effect of foreign exchange rate changes, net		619	167
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	22,554	30,348

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 Flat B, Wah Sing industrial Building, 18 Cheung Shun Street, Cheung Sha Wan, 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.

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.

Basis of preparation

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.

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 2018. 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.

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred to as the "Group") has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs and an interpretation 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.

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

(a) Impact on the consolidated financial statements

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

Consolidated statement of financial position (extract)	31 December 2017	HKFRS 9	1 January 2018
	HK$'000	HK$'000	HK$'000
Non-current assets			
Available-for-sale investment	3,582	(3,582)	–
Current assets			
Trade receivables	5,930	(58)	5,872
Loan receivables	4,729	(102)	4,627
Prepayments, deposits and other receivables	25,311	(65)	25,246
Financial assets at fair value through profit or loss	16,412	3,582	19,994
Net current assets	102,122	3,357	105,479
Net assets	119,870	(225)	119,645
Capital and reserves			
Reserves	112,029	(225)	111,804
Total equity	119,870	(225)	119,645

Notes to the Financial Statements

For the year ended 31 December 2018

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments, Amendments to HKFRS 9 Prepayment Features with Negative Compensation and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, and 2) expected credit losses ("ECL") for financial assets.

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

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note to consolidated financial statement.

Summary of effects arising from initial application of HKFRS 9

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

(a) Classification and measurement

	Available-for-sales investments	Financial assets at fair value through profit or loss ("FVTPL")
	HK$'000	HK$'000
Closing balance at 31 December 2017		
– HKAS 39	3,582	16,412
Effect arising from initial application of HKFRS 9:		
Reclassification		
From available-for-sales investments to FVTPL (note (a))	(3,582)	3,582
Opening balance at 1 January 2018	–	19,994

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

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

(a) Classification and measurement (continued)

Notes

(a) Financial assets at FVTPL classified as available-for-sale ("AFS") investments

The Group has reassessed its investments in equity securities classified as AFS under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK$3,582,000 of the Group's investments were AFS and reclassified to be measured at FVTPL.

There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

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

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including loan receivables, deposits and other receivables and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition which are based on internal credit rating and past due analysis.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follow.

Other financial assets measured at amortised cost

ECL for other financial assets at amortised cost, including cash and bank balances are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

Other financial assets measured at amortised cost *(continued)*

The following tables summarized the impact, net of tax, of transition HKFRS 9 on the opening balance of accumulated losses as 1 January 2018 as follow:

	HK$'000
Accumulated losses	
As at 31 December 2017	(94,360)
Increase in expected credit loss ("ECLs") in	
– Trade receivables	(58)
– Other receivables	(65)
– Loan receivables	(102)
Accumulated losses as at 1 January 2018, (restated)	(94,585)

All loss allowances, including trade receivables, other receivables , loan receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables	Other receivables	Loan receivables
	HK$'000	**HK$'000**	**HK$'000**
At 31 December 2017 – HKAS 39	–	–	–
Amounts re-measured through opening – accumulated losses	(58)	(65)	(102)
At 1 January 2018 – HKFRS 9	(58)	(65)	(102)

HKFRS 15 Revenue from Contracts with Customers and the related amendments

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

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

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 15 Revenue from Contracts with Customers and the related amendments *(continued)*

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

– Sale of handbags

– Sale of natural aroma, skincare products and accessories

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

There is no impact of transition to HKFRS 15 on retained profits at 1 January 2018.

New and revised HKFRSs in issue but not yet effective

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

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

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

2.2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$52,545,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16.

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

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.

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.

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.

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.

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);

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.

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.

Financial instruments (under adoption of HKFRS 9 as at 1 January 2018)

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

Recognised financial assets and financial liabilities are initially measured at fair value except for trade receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2018

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (under adoption of HKFRS 9 as at 1 January 2018) *(continued)*

Financial assets

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically

a. debt instruments 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 amount outstanding ("SPPI"), are subsequently measured at amortised cost;

b. debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI; and

c. all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies, in other comprehensive income; and

- the Group may irrevocably designate a debt instrument that meets the amortised cost of FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (under adoption of HKFRS 9 as at 1 January 2018) *(continued)*

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECLs"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Interest income is recognised in profit or loss and is included in the "Other income" line item.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (under adoption of HKFRS 9 as at 1 January 2018) *(continued)*

Impairment of financial assets

The Group recognises loss allowances for ECLs on the following financial instruments that are neither measured at FVTPL:

(a) other deposits

(b) amounts due from related companies

(c) cash and bank balances

ECLs are required to be measured through a loss allowance at an amount equal to:

(a) 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage l); or

(b) Lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

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

The Group always recognises lifetime ECL for amounts due from related companies. The ECL on these assets are assessed individually for debtors with significant balances.

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

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of financial instruments that share similar economic risk characteristics. The measurement of loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (under adoption of HKFRS 9 as at 1 January 2018) *(continued)*

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (under adoption of HKFRS 9 as at 1 January 2018) *(continued)*

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

Credit-impaired financial assets

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

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

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

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

(d) the disappearance of an active market for a security because of financial difficulties; or

(e) the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (under adoption of HKFRS 9 as at 1 January 2018) *(continued)*

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECLs

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors;
- Nature of collaterals for finance lease receivables; and
- External credit ratings where available.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (under adoption of HKFRS 9 as at 1 January 2018) *(continued)*

Measurement and recognition of ECLs *(continued)*

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risk are taken into account by adjusting the cash shortfalls being discounted.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9 and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

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

Presentation of allowance for ECL in the consolidated statements of financial position

Loss allowances for ECL are presented in the consolidated statements of financial position as follows:

(a) for financial assets measured at amortised cost; loss allowances for ECL are presented in the combined statements of financial position as a deduction from the gross carrying amount of the assets;

(b) for equity instruments measured at FVTOCI, no loss allowance is recognised in the consolidated statements of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the FVTOCI reserve.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (under adoption of HKFRS 9 as at 1 January 2018) *(continued)*

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities, including other payables, amounts due to related companies, amount due to a related party and secured borrowings are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

Equity instruments

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

Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018) *(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.

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).

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.

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.

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.

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 (upon adoption of HKFRS 15 in accordance with transitions in note 2)

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (upon adoption of HKFRS 15 in accordance with transitions in note 2) *(continued)*

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

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- The Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance complete to date.

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

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

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

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

Sale of goods

Revenue from sales of handbags, natural aroma, skincare products and accessories are recognised when control of the products has transferred, being when the products are delivered and the customers have inspected and accepted the products.

Payment of the transaction price is due immediately when the customers purchase the goods and takes delivery in store.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (before 1 January 2018)

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

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

(b) 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; and

(c) rental income, on a time proportion basis over the lease terms.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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.

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.

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 and intangible assets

The Group determines whether goodwill and intangible assets 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 2018 was HK$2,013,000 (2017: HK$2,013,000). Further details are given in note 15.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Estimated impairment on financial assets at amortised cost

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

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
Year ended 31 December 2018					
Revenue from external customers	250,167	14,126	–	–	264,293
Non-current assets	12,175	12	1	–	12,188
Capital expenditure	6,199	–	–	–	6,199
Year ended 31 December 2017					
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

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 (2017: Nil) and no information about major customers is presented accordingly.

4. OPERATING SEGMENT INFORMATION *(continued)*

Information about major products

	2018	2017
	HK$'000	HK$'000
Handbags	**241,056**	281,034
Other products	**23,237**	37,585
	264,293	318,619

5. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, is as follows:

	2018	2017
	HK$'000	HK$'000
Disaggregation of revenue from contracts with customers		
Revenue from contracts with customers:		
Sales of handbags	**241,056**	281,034
Sales of natural aroma, skincare products and accessories	**23,237**	37,585
	264,293	318,619
Timing of revenue recognition:		
A point in time	**264,293**	318,619
Over time	**–**	–
	264,293	318,619
Geographical market:		
Hong Kong	**250,167**	307,623
Macau	**14,126**	10,274
The PRC	**–**	722
	264,293	318,619

All of the Group's revenue from contacts with customers is based on where goods are sold. All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Revenue recognition are disclosed in note 2 of Consolidated financial statement.

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For the year ended 31 December 2018

6. OTHER (LOSS)/INCOME AND GAINS, NET

	2018	2017
	HK$'000	HK$'000
Other (loss)/income and gains, net		
Bank interest income	11	10
Change on fair value of other financial assets	–	(139)
Fair value gain/(loss) on financial assets through profit and loss		
– Unrealised	(10,959)	(1,469)
– Realised	166	(3,376)
Gain on disposal of available-for-sale investments	–	1,487
Impairment loss on available-for-sale investments	–	(19,720)
Allowance for expected credit losses on other receivables	57	–
Allowance for expected credit losses on trade receivables	12	–
Allowance for expected credit losses on loan receivables	(6)	–
Gain/(loss) on disposal of property, plant and equipment	1,980	(109)
Loss on written off of property, plant and equipment	(280)	–
Interest income on loan receivables	70	1,037
Gain on acquisition of a subsidiary	–	58
Interest income from investments in convertible bonds	–	335
Others	562	199
	(8,387)	(21,687)

7. FINANCE COSTS

	2018	2017
	HK$'000	HK$'000
Interest on bank overdrafts	–	2
Finance lease charges	313	248
Interest expenses on loan payable	48	694
	361	944

8. LOSS BEFORE TAX

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

	2018	2017
	HK$'000	HK$'000
Cost of inventories recognised as an expense	212,654	253,645
Write down for slow-moving inventories included in cost of inventories recognised as an expense	2,399	2,564
Depreciation		
– owned assets	2,952	4,083
– assets under finance lease	3,180	2,013
	6,132	6,096
Amortisation of intangible assets	565	565
Net exchange gain	(20)	(107)
Operating lease rentals in respect of rented premises		
– Minimum lease payments	24,826	39,776
– Contingent rentals	2,946	3,044
	27,772	42,820
Share-based payment expenses	–	6,385
Auditors' remuneration	1,000	1,000
Loss on write-off of property, plant and equipment	280	–
Loss on write-off from closure of store	–	17
Employee benefit expenses (excluding directors' emoluments)		
Salaries, wages and other benefits	23,142	29,637
Pension scheme contributions	839	1,179
Equity-settled share option expense	–	–
	23,981	30,816

9. 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
Year ended 31 December 2018						
Executive directors:						
Mr. Hu Bo	–	242	–	14	–	256
Mr. Cao Huijuan (appointed on 24 March 2017)	–	240	–	–	–	240
	–	482	–	14	–	496
Independent non-executive directors:						
Mr. Choi Kam Yan, Simon (appointed on 1 February 2018)	110	–	–	–	–	110
Mr. Chan Chi Hung	200	–	–	–	–	200
Mr. Tou Kin Chuen	200	–	–	–	–	200
	510	–	–	–	–	510
Sub-total:	510	482	–	14	–	1,006

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(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
Year ended 31 December 2017						
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 *(chief executive)* (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

There was no arrangement under which a director and chief executive has waived or agreed to waive any emoluments during the year (2017: Nil).

During the year ended 31 December 2018, 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 (2017: Nil).

Notes to the Financial Statements

For the year ended 31 December 2018

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included Nil directors (2017: three directors), details of whose remuneration are set out in note 9 above. Details of the emoluments for the year of the remaining five (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	5,062	1,964
Discretionary bonus	–	–
Pension scheme contributions	76	36
Equity-settled share option expense	–	–
	5,138	2,000

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	
	2018	2017
Nil to HK$1,000,000	3	1
HK$1,000,001 to HK$1,500,000	2	1
HK$1,500,001 to HK$2,000,000	–	–

During the current year, no 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 2018, 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 (2017: Nil).

11. INCOME TAX EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2,000,000 will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The Group is subject to Hong Kong Profit Tax at a rate of 16.5% for the year ended 31 December 2017.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 April 2008 onwards. Macau complementary tax is calculated at 12% of the estimated assessable profit exceeding MOP600,000 for both year.

	2018	2017
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**88**	132
Over-provision in prior years	**(1,243)**	–
Current – Elsewhere		
Charge for the year	**–**	192
Underprovision in prior years	**–**	–
Deferred tax	**(224)**	(180)
Total tax (credit)/charge for the year	**(1,379)**	144

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	
	2018	2017
	HK$'000	HK$'000
Loss before tax	**(41,339)**	(81,292)
Tax at the statutory tax rates	**(3,325)**	(13,510)
Over provision in previous years	**(1,243)**	–
Tax effect of non-taxable income	**(8,449)**	(769)
Tax concession	**(40)**	–
Tax effect of non-deductible expenses	**14,192**	6,169
Tax effect of tax losses not recognised	**(2,514)**	8,254
Actual tax expenses	**(1,379)**	144

There was no income tax relation to components of other comprehensive income for the years ended 31 December 2018.

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12. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2018 (2017: Nil), nor has any dividend been proposed since the end of the reporting period.

13. 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$40,012,000 (2017: HK$80,784,000) and the weighted average of 813,633,000 ordinary shares (2017: 813,633,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2018 and 2017 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.

14. 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
2018					
Cost:					
At 1 January 2018	1,538	19,061	12,742	7,467	40,808
Additions	–	588	185	5,426	6,199
Disposal	(1,538)	–	–	–	(1,538)
Write-off	–	(513)	(781)	–	(1,294)
At 31 December 2018	–	19,136	12,146	12,893	44,175
Accumulated depreciation:					
At 1 January 2018	62	13,928	11,708	4,308	30,006
Depreciation charge for the year	2	2,336	614	3,180	6,132
Disposals	(64)	–	–	–	(64)
Write-off	–	(387)	(627)	–	(1,014)
At 31 December 2018	–	15,877	11,695	7,488	35,060
Carrying amount:					
At 31 December 2018	–	3,259	451	5,405	9,115

14. 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
2017					
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

The carrying amount of the Group's motor vehicles held under finance lease amounted to HK$5,405,000 (2017: HK$3,159,000) as at 31 December 2017.

15. INTANGIBLE ASSETS

	Goodwill	Exclusive distribution right	Total
	HK$'000	HK$'000	HK$'000
2018			
Cost:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	2,013	2,826	4,839
Accumulative amortisation:			
At 1 January 2017	–	636	636
Charge for the year	–	565	565
At 31 December 2017 and 1 January 2018	–	1,201	1,201
Charge for the year	–	565	565
At 31 December 2018	–	1,766	1,766
Carrying amount:			
At 31 December 2018	2,013	1,060	3,073
At 31 December 2017	2,013	1,625	3,638

Amortisation of exclusive distribution right of HK$565,000 (2017: 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.

15. 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:

	2018	2017
	%	%
Gross margin	**69.8**	71.5
Long-term growth rate	**3**	3
Pre-tax discount rate	**15.04**	13.48

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 15.04% 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.

16. 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

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16. 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
Milan Station (Macau) Limited ("MS (Macau)")	Macau	MOP30,000	–	100	Engaged in retailing of handbags, fashion accessories and embellishments operation

16. 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 (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(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.

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.

17. (a) AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	HK$'000	HK$'000
Listed equity investments, at fair value		
Hong Kong	–	3,582

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.

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

	2018	2017
	HK$'000	HK$'000
Listed securities		
– Equity securities listed in Hong Kong	13,995	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.

At 31st December 2018, the fair value of suspended trading security listed in Hong Kong with the amount of approximately HK$218,000 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 2018. 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.

Upon initial adoption of HKFRS 9, the listed equity investment of HK$3,582,000 was reclassified to financial assets at fair value through profit or loss at 1 January 2018.

18. 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 *(note a)*	0.63%	1.29%	0.90%
Expected volatility *(note b)*	85.73%	84.44%	90.57%
Expected dividend yield *(note c)*	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 invertible 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.

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

	Debt components	**Derivative components**
	HK$'000	HK$'000
At 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)
At 31 December 2017	–	–

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Prepayments	820	8,073
Deposits	11,596	13,780
Other receivables	824	5,836
	13,240	27,689
Less: Non-current portion	(3,368)	(2,378)
	9,872	25,311

At 31 December 2018 and 2017, 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. Details of assessment of expected credit loss are set out in Note 35.

20. INVENTORIES

	2018	2017
	HK$'000	HK$'000
Goods held for resale	40,532	46,729

As at 31 December, the carrying values of inventories are HK$40,532,000 (2017: HK$46,729,000), which are net of provision for obsolete and slow moving inventories HK$2,399,000 (2017: HK$2,564,000)

21. 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.

	2018	2017
	HK$'000	HK$'000
Trade receivables	3,761	5,930
Less: allowance for expected credit losses	(46)	–
	3,715	5,930

21. TRADE RECEIVABLES *(continued)*

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

	2018	2017
	HK$'000	HK$'000
Within 1 month	2,788	4,830
1 to 2 months	6	91
2 to 3 months	2	6
Over 3 months	919	1,003
	3,715	5,930

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

	2018	2017
	HK$'000	HK$'000
Neither past due nor impaired	2,792	4,902
1 to 3 months past due	16	161
Over 3 months past due	907	867
	3,715	5,930

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.

Details of the assessment on expected credit losses are set out in note 35.

Movement in lifetime ECL that has been recognized for trade receivables in accordance with the simplified approach set out in HKFRS 9 for the year ended 31 December 2018.

	Total
	HK$'000
Balance as at 31 December, 2017 under HKAS 39	–
Adjustment upon application of HKFRS 9	58
Adjusted balance as at 1 January, 2018	58
ECL	(12)
Balance as at December 31, 2018	46

22. 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.

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

	2018	2017
	HK$'000	HK$'000
Within 3 months	8,392	1,226
3 to 6 months	–	7
Over 6 months	–	3,496
	8,392	4,729

The loan to customers were repaid in accordance with the terms of loan agreements.

(a) 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:

	2018	2017
	HK$'000	HK$'000
Neither past due nor impaired	8,392	4,729
Less than 6 months past due	–	–
Over 6 months past due	–	–
	8,392	4,729

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

22. LOAN RECEIVABLES *(continued)*

Movement in lifetime ECL that has been recognized for loan receivables in accordance with the simplified approach set out in HKFRS 9 for the year ended 31 December 2018.

	Total
	HK$'000
Balance as at December 31, 2017 under HKAS 39	–
Adjustment upon application of HKFRS 9	102
Adjusted balance as at 1 January 2018	102
ECL	6
Balance as at 31 December 2018	108

None of the loan receivables that are neither past due nor impaired. Details of assessment on expected credit loss are set out in Note 35.

23. CASH AND CASH EQUIVALENTS

	2018	2017
	HK$'000	HK$'000
Cash and bank balances	22,554	30,348

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$547,000 (2017: HK$1,071,000). 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.

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24. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	HK$'000
Trade payables *(Note iv)*	935	464
Accrued liabilities	5,244	8,287
Other payables *(Note i)*	202	1,496
Other liabilities	–	46
Amount due to non-controlling interest *(Note iii)*	3,960	3,960
Deposit received	2,560	3,004
Loan payables *(Note ii)*	14,500	7,909
	27,401	25,166

Notes:

(i) Other payables are non-interest-bearing and repayable on demand.

(ii) Loan payables are bearing the interest at 6% per annum.

(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:

	2018	2017
	HK$'000	HK$'000
Within 1 month	861	446
1 to 2 months	74	–
2 to 3 months	–	–
Over 3 months	–	18
	935	464

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 2018 and 2017, the total future minimum lease payments under the finance leases and their present values were as follows:

	Minimum lease payments 2018	Minimum lease payments 2017	**Present value of minimum lease payments 2018**	Present value of minimum lease payments 2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**2,532**	1,475	**2,286**	1,312
On the second year	**2,087**	1,335	**1,959**	1,246
In the third to fifth years, inclusive	**2,094**	890	**2,017**	872
Total minimum finance lease payments	**6,713**	3,700	**6,262**	3,430
Future finance charges	**(451)**	(270)		
Total net finance lease payables	**6,262**	3,430		
Portion classified as current liabilities	**(2,286)**	(1,312)		
Non-current portion	**3,976**	2,118		

During the year ended 31 December 2018 and 2017, the Group has its motor vehicles under finance leases. The lease term is ranged from three to five years and the contractual interest rate for the year ranged from 1.65% to 2.5% (2017: 1.65% to 2.5%) per annum. All leases are denominated in functional currency of respective group entities. The obligations under finance leases are secured by the lessor's charge over the leased assets

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26. PROVISIONS

	2018	2017
	HK$'000	HK$'000
Provision for reinstatement costs		
Analysed for reporting purposes as:		
Non-current liabilities	102	90
	102	90

	HK$'000
Provision for reinstatement costs	
At 1 January 2018	90
Amounts provision during the year	12
At 31 December 2018	102

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 2017	(251)	(373)	(624)
Credited to the consolidated statement of profit or loss during the year *(Note 11)*	87	93	180
At 31 December 2017 and 1 January 2018	(164)	(280)	(444)
Credited to the consolidated statement of profit or loss during the year *(Note 11)*	131	93	224
At 31 December 2018	(33)	(187)	(220)

27. DEFERRED TAX *(continued)*

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

ii) Reconciliation to the consolidated statement of financial position

	2018	2017
	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	(220)	(444)
	(220)	(444)

b) Deferred tax assets not recognised

Certain subsidiaries of the Group have tax losses arising in Hong Kong in total of HK$89,152,000 (2017: HK$74,569,000) as at 31 December 2018 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 2018 and 2017, the Group had no other significant potential unprovided deferred tax liabilities not recognised.

28. SHARE CAPITAL

	2018	2017
	HK$'000	HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	20,000	20,000

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 2017, 31 December 2017, 1 January 2018 and 31 December 2018	813,633	8,136

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.

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.

29. SHARE OPTION SCHEME *(continued)*

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:

	2018 Weighted average exercise price	2018 Number of options	2017 Weighted average exercise price	2017 Number of options
	HK$ per share	'000	HK$ per share	'000
At 1 January	0.25	80,905	0.63	24,726
Granted during the year	–	–	0.175	67,420
Lapsed during the year	–	–	0.648	(11,241)
Outstanding at 31 December	0.25	80,905	0.25	80,905
Exercisable at 31 December	0.25	80,905	0.25	80,905

The movements in share options granted under the Scheme during the year ended 31 December 2018 are shown below:

	Number of share options									
Name or category of participants	At 1 January 2018	Granted during the year	Exercised during the year *(Note)*	Expired during the year	Reclassified during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
Other employees										
In aggregate	13,485,000	–	–	–	–	–	13,485,000	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
	80,905,000	–	–	–	–	–	80,905,000			

The options outstanding at 31 December 2018 had exercise prices of HK$0.616 or HK$0.175 (2017: HK$0.616 or HK$0.175) and a weighted average remaining contractual life of 3.03 years (2017: 4.03 years).

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:

2018 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
80,905		

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
80,905		

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 (2017: 80,905,000) share options outstanding under the Scheme.

At the date of approval of these financial statements, the Company had 80,905,000 (2017: 80,905,000) share options outstanding under the Scheme, which represented approximately 9.94% (2017: 9.94%) 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 consolidated statement of profit or loss.

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)
Total identifiable net assets at fair value	1,758
Gain on acquisition of a subsidiary	(58)
Satisfied by cash	1,700

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	(161)

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:

		2018	2017
	Notes	**HK'000**	HK'000
Rental expenses paid to related companies	(i), (a)	**6,048**	8,112
Purchases from a related company	(ii)	**471**	1,657
Legal and professional expenses to a related company	(iii)	**–**	34

Notes:

(i) During the year ended 31 December 2017 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 former 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.

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 a former 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 ended 31 December 2018 was HK$6,048,000 (2017: HK$7,600,000).

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

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

	2018	2017
	HK$'000	HK$'000
Within one year	**6,048**	–
In the second to fifth years, inclusive	**2,789**	–
	8,837	–

The leases related to the related companies run for an initial period of 2 to 2.5 years and the related commitments are included in note 33.

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

	2018	2017
	HK$'000	HK$'000
Short-term employee benefits	**4,106**	8,491
Equity-settled share option expense	**–**	–
Post-employment benefits	**74**	96
	4,180	8,587

Further details of directors' and chief executive's emoluments are included in note 9 to the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

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 six 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 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	22,487	16,429
In the second to sixth years, inclusive	30,058	12,719
	52,545	29,148

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

	2018	2017
	HK$'000	HK$'000
Financial assets at fair value through profit or loss	13,995	16,412
Available-for-sale investments	–	3,582
Financial assets at amortised cost/loans and receivables:		
Trade receivables	3,715	5,930
Loan receivables	8,392	4,729
Financial assets included in deposits and other receivables	12,420	19,616
Cash and cash equivalents	22,554	30,348
	47,081	60,623
	61,076	80,617

34. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities

	2018	2017
	HK$'000	HK$'000
Financial liabilities at amortised cost:		
Trade payables	935	464
Financial liabilities included in accrued liabilities and other payables	26,466	24,656
Obligations under finance leases	6,262	3,430
	33,663	28,550

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 2018 and 31 December 2017, 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 2018. The directors of the Company will monitor the risks and consider hedging the risk exposure should the need arise.

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

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:

- Profit or loss for the year ended 31 December 2018 would increase/decrease by HK$2,099,000 (2017: HK$2,462,000) as a result of change in fair value of financial assets at fair value through profit and loss.

Foreign currency risk

The Group carries on its trading transactions mainly in HK$, RMB, US dollars and Euro. In respect of transactional exposures of the Group in currencies other than the functional currency, the Group ensures that the net exposure is kept to an acceptable level. It is the policy of the Group to continue maintaining the balances of its sales and purchases in the same currency. Since HK$ 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$'000
Year ended 31 December 2018		
If HK$ weakens against RMB	**5**	**(27)**
If HK$ strengthens against RMB	**(5)**	**27**
Year ended 31 December 2017		
If HK$ weakens against RMB	5	(54)
If HK$ strengthens against RMB	(5)	54

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

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.

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

Approximately 76.5% and 77.1% of total trade receivables outstanding at 31 December 2018 and 2017 were due from top 5 trade receivables which exposed the Group to concentration of credit risk.

As at 31 December, 2018	**Within 1 month**	**1 to 2 months**	**2 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	0.9%	–	–	2.3%	1.2%
Gross carrying amount (HK$)	2,812	6	2	941	3,761
Lifetime ECL	(24)	–	–	(22)	(46)
	2,788	6	2	919	3,715

As at 1 January, 2018	Within 1 month	1 to 2 months	2 to 3 months	Over 3 months	Total
Expected credit loss rate	0.7%	1.1%	–	2.2%	1.0%
Gross carrying amount (HK$)	4,830	91	6	1,003	5,930
Lifetime ECL	(35)	(1)	–	(22)	(58)
	4,795	90	6	981	5,872

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 2018, based on past experience, the directors of the Company are of the opinion that provision for impairment of HK$108,000 was recognised on individual loans is necessary in respect of these balances.

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. 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.

Quantitative information related to allowance for ECL of loan receivables was details in Note 22.

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.

Other receivables

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

The increase in loss allowances for expected credit loss for other receivables upon the transition to HKFRS 9 as of 1 January 2018 were approximately of HK$65,000. The loss allowances was decreased with the reversal of ECL by approximately HK$57,000 for other receivables during the year ended 31 December 2018.

Bank Balance

The credit risk on bank balances are limited because the majority of the counterparties are bank with high credit-ratings assigned by International credit-ratio agencies. The Group has no other significant concentration of 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 21 and 23 to the financial statements.

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

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 2018				
	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	Carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	935	–	–	935	935
Financial liabilities included in accrued liabilities and other payables	26,466	–	–	26,466	26,466
Obligations under finance leases	2,532	2,087	2,094	6,713	6,262
	29,933	2,087	2,094	34,114	33,663

	31 December 2017				
	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	Carrying amount
	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

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

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 2018 and 2017.

- 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).
- 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 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at fair value through profit or loss	**13,777**	**–**	**218**	**13,995**

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

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

Fair value of financial instrument *(continued)*

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 as at 31 December 2018 and 31 December 2017. 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 equity investment are disclosed below.

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.

The following table presents the changes in fair value of available-for-sale financial assets 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 2018:

Financial assets	**Fair value at 31 December**		**Fair value Hierarchy**	**Valuation technique(s) and key input(s) and sensitivity**
	2018	2017		
	HK'000	HK'000		
Available-for-sale investment	–	3,582	Level 1	Quoted bid prices in active market
Financial assets at fair value through profit or loss	13,777	15,600	Level 1	Quoted bid prices in active market
	218	812	Level 3	Market approach Key Inputs: Discount rate of 95.0% (2017: 81.5%) The discount rate is negatively correlated to the fair value measurement of suspended trading security.

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
	HK$'000
At 1 January 2018	812
Loss on fair value change on financial assets at fair value through profit or loss	(594)
At 31 December 2018	218

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 2018 and 2017.

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 2018, the Group's current ratio was 3.2 (2017: 4.7).

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 included in trade and other payable	**Obligations under finance lease**	**Total**
	HK$	HK$	HK$
	(note 24)	*(note 25)*	
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
At 31 December 2017 and 1 January 2018	7,909	3,430	11,339
Increase in loan payable	14,500	–	14,500
Accrued interest	48	313	361
Interest paid	(48)	(313)	(361)
Financing cash inflows	–	2,832	2,832
Financing cash outflows	(7,909)	–	(7,909)
At 31 December 2018	14,500	6,262	20,762

Notes to the Financial Statements

For the year ended 31 December 2018

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:

	2018	2017
	HK$'000	HK$'000
Non-current assets		
Property, plant and equipment	6	8
Investments in subsidiaries	43,700	43,700
Total non-current assets	43,706	43,708
Current assets		
Prepayments, deposits and other receivables	114	7,593
Due from subsidiaries	25,069	80,864
Cash and cash equivalents	194	1,914
Total current assets	25,377	90,371
Current liabilities		
Due to subsidiaries	24,197	31,468
Accrued liabilities and other payables	1,579	2,475
Total current liabilities	25,776	33,943
Net current (liabilities)/assets	(399)	56,428
Net assets	43,307	100,136
Equity		
Issued capital	8,136	8,136
Reserves	35,171	92,000
Total equity attributable to owners of the Company	43,307	100,136

Approved and authorised for issue by the board of directors on 26 March 2019 and signed on its behalf by:

Hu Bo
Director

Cao Huijuan
Director

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 *(Note (a))*	HK$'000	HK$'000	HK$'000
At 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 expense	–	–	6,385	–	6,385
Transfer of share option reserve upon the lapse of share options	–	–	(3,175)	3,175	–
At 31 December 2017 and 1 January 2018	218,508	555,000	10,047	(691,555)	92,000
Loss for the year and total comprehensive loss for the year	–	–	–	(56,829)	(56,829)
At 31 December 2018	218,508	555,000	10,047	(748,384)	35,171

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.

38. EVENTS AFTER THE REPORTING PERIOD

There has no significant events took place subsequent to 31 December 2018.

39. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2 to consolidated financial statement.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2019.

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				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**264,293**	318,619	318,802	399,679	615,863
Cost of sales	**(212,654)**	(253,645)	(252,154)	(308,007)	(482,317)
Gross profit	**51,639**	64,974	66,648	91,672	133,546
Other (loss)/income and gains, net	**(8,387)**	(21,687)	(628)	16,044	3,555
Selling expenses	**(47,574)**	(67,508)	(69,788)	(94,216)	(132,379)
Administrative and other operating expenses	**(36,656)**	(56,127)	(70,098)	(60,858)	(57,175)
Finance costs	**(361)**	(944)	(206)	(428)	(990)
LOSS BEFORE TAX	**(41,339)**	(81,292)	(74,072)	(47,786)	(53,443)
Income tax income/(expense)	**1,379**	(144)	287	(849)	(82)
LOSS FOR THE YEAR	**(39,960)**	(81,436)	(73,785)	(48,635)	(53,525)
Attributable to:					
Owners of the Company	**(40,012)**	(80,784)	(72,820)	(48,242)	(52,918)
Non-controlling interests	**52**	(652)	(965)	(393)	(607)
	(39,960)	(81,436)	(73,785)	(48,635)	(53,525)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**114,698**	150,150	291,470	254,459	323,923
TOTAL LIABILITIES	**(34,394)**	(30,280)	(28,969)	(27,047)	(53,275)
NON-CONTROLLING INTERESTS	**243**	295	(2,799)	(3,901)	(3,079)
	80,547	120,165	259,702	223,511	267,569

Note:

The consolidated results of the Group for each of the two years ended 31 December 2018 and 2017 and the consolidated assets and liabilities of the Group as at 31 December 2018 and 2017 are those set out on pages 46 to 48 of this annual report.

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

米蘭站 Milan Station

ANNUAL 年報 REPORT 2018

米蘭站控股有限公司

MILAN STATION HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Stock Code: 1150

網購 始動

www.milanstation.com.hk