米 蘭 站 控 股 有 限 公 司

MILAN STATION HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

年報
ANNUAL REPORT

米蘭站 Milan Station

Stock Code: 1150

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Bo
Mr. Li Zhongqi

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

Room 13, 6/F, Block A
Hong Kong Industrial Centre,
489-491 Castle Peak Road,
Kowloon

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 2019	2018
Profitability ratio			
Gross profit margin *(%)*	1	**20.6%**	19.5%
Net loss margin *(%)*	2	**(10.3)%**	(15.1)%
Return on assets *(%)*	3	**(23.5)%**	(34.8)%
Return on equity *(%)*	4	**(39.4)%**	(49.8)%
Liquidity ratio			
Current ratio	5	**2.1**	3.3
Quick ratio	6	**1.0**	1.9
Gearing ratio *(%)*	7	**29.2%**	7.8%
Inventory turnover days	8	**81**	75

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 equity 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,

The Hong Kong economy went through a difficult year in 2019. The global economic slowdown and the elevated Sino-US trade tensions dampened trade and investment worldwide. Continuing the decelerating trend that began in the first half of 2019, the Hong Kong retail market weakened further from July onwards due to the outbreak of social incidents. The local social incidents involving violence dealt a heavy blow to economic sentiment and consumption-and tourism-related activities. The economy contracted for 2019 as a whole.

The global tension raised by the Sino-US trade dispute continues in 2019. Although China and the US had reached a phase one trade deal on 13 December 2019, uncertainties in the prospects of Sino-US trade conflicts remained and continued to affect Hong Kong's external trade performance. Nevertheless, the luxury retail business of the Group was not adversely affected directly as the targeted tariffs list did not impose on the Group's retail business. The indirect impact persisted as the uncertainties have eventually lowered the private consumption sector.

The Mainland tourists' spending is one of the key demand drivers to the Group. With the operation of Hong Kong-Zhuhai-Macao Bridge and Guangzhou-Shenzhen-Hong Kong Express Rail Link and Road Initiative, the positive impacts from the Greater Bay Area present in the first half year of 2019. However, the local social incidents have severely hurt consumer sentiment which resulted in a sharp fall in Mainland tourists' arrivals in the second half of 2019.

In view of the uncertainties of the effects from the potential global issues and local social incidents, 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.

Besides, 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.

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.

Looking forward to 2020, the major focus will be the ongoing Sino-US trade dispute, local social incidents and the spread of the novel coronavirus infection. The easing of Sino-US trade tensions since the latter part of last year will hopefully bring a more stable global economic environment in 2020. However, the threat of the novel coronavirus infection has become a new cause for deep concern which hurt economic sentiment in Hong Kong and Mainland. It is notably increased the downside risks to the global economic near-term outlook.

Director's Statement

Asia, given the huge growth potential of the emerging market economies therein including notably the Mainland, will continue to be an important global growth driver in the years to come, providing enormous business opportunities for Hong Kong and the world at large. 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, it is believed that the positive impacts from the Greater Bay Area will continue to present in 2020.

Going forward, riding on the two national policies, namely the Belt and Road Initiative and the Guangdong-Hong Kong Macao Bay Area development, the medium-term outlook for the Hong Kong economy is still positive. Hong Kong is specifically benefit 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 2020, 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 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The Hong Kong economy went through a difficult year in 2019. According to the Hong Kong Economy's economic report, real GDP contracted by 1.2%, the first annual decline since 2009. The economy entered recession and worsened abruptly in the second half of the year.

Hong Kong retail market have been facing a recession during the first half year in 2019 with the sluggish domestic demand and cautious private consumption sentiment. Continuing the decelerating trend that began in the first half of 2019, the Hong Kong retail market weakened further from July onwards due to the outbreak of social incidents. The Census and Statistics Department has published Report on Monthly Survey of Retail Sales, which shows that the value of total retail sales in December 2019, provisionally estimated at $36.2 billion, decreased by 19.4% compared with the same month in 2018. For 2019 as a whole, the value of total retail sales was provisionally estimated at $431.2 billion, decreased by 11.1% in value and 12.3% in volume compared with 2018. Retail outlets selling items that feature prominently in visitors' shopping expenditure witnessed particularly noticeable sales declines in the second half of 2019.

The local social incidents dealt a severe blow to retail sales by weighing on inbound tourism and dampening local consumer sentiment. Since July 2019, mass demonstrations with violence have hurt Hong Kong's image as a safe city and severely deterred visitors. According to the statistics from Hong Kong Tourism Board, the number of visits by mainland Chinese tourists to Hong Kong in the year of 2019 recorded negative growth of 14.2% as compared with the same period last year, of which same-day visitors and overnight visitors decreased by 11.5% and 18.5% respectively. Retail business and total tourism expenditure severely affected by the sizable fall in mainland Chinese tourists arrivals.

The global economic slowdown and uncertainties stemming from Sino-US trade tensions which led to the slump of retail sales. The private consumption sector has been turning prudent and stayed cautious, and corporations may have to be more careful in their expanding business plans in the face of various headwinds and the weakened economic outlook. The continuous imposition of import tariff and delay in the implementation of tariff by the US government and the PRC government weakened the economy and posted evolving threats and uncertainties.

BUSINESS REVIEW

During the year, the Group's total revenue decreased by approximately 12.4% to approximately HK$231.6 million. The revenues generated in the markets of Hong Kong and Macau accounted for 93.7% and 6.3% respectively of the Group's revenue. The Group's gross profit at approximately HK$47.8 million, which was decreased by 7.4% as compared to last year. The net loss for the year decreased by 40.1% to HK$23.9 million mainly due to the decrease in rental expenses of retail stores due to elimination of unprofitable stores and decrease in fair value loss on financial assets through profit or loss of approximately HK$6.2 million.

Hong Kong

During the year, sales of the Group in Hong Kong decreased by 13.3% to approximately HK$217 million. The revenue came from the 6 “Milan Station” retail stores, the 7 “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 2019, the Group held the listed securities in Hong Kong with the fair value of HK$9.3 million under financial assets at fair value through profit or loss. The Group recognised a unrealised loss on financial assets at fair value through profit or loss of approximately HK$4.7 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, no revenue was generated in Mainland.

Macau

The gambling industry and tourism industry in Macau steadily improved during the year. The Group’s revenue from the Macau market increased by 3.5% to approximately HK$14.6 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 2019	Gain on disposal	Fair value gain/(loss)	As at 31 December 2019	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	7,720	–	(3,200)	4,520	1.46%	4.4%
Others		6,275	–	(1,508)	4,730		4.6%
		13,995	–	(4,708)	9,250		

For the year ended 31 December 2019, the Group recognized an impairment loss on others financial assets at fair value through profit or loss of approximately HK$37,000.

Outlook

Hong Kong economy is extremely challenging in 2019, and subject to a high degree of uncertainty. It is believed that Hong Kong retail market is expected to face a further downturn in the year of 2020 with the ongoing Sino-US trade dispute, local social incidents and the spread of the novel coronavirus infection. The Group will adopt cautious flexible strategy to face the market changes and is prudent about its business performance in 2020.

The ongoing uncertainties surrounding the Sino-US trade relations and social instability in Hong Kong result in a more challenging external environment. The outlook for domestic demand in 2020 is also subdued, with the threat of the novel coronavirus infection severely hurting overall economic sentiment and disrupting such economic activities as trade, and tourism and consumption-related activities. The timing of withdrawal of the travel restrictions put in place by the governments of both the PRC and Hong Kong is still uncertain, resulting in the minimal tourism from PRC. The control of the novel coronavirus infection as well as the development of the local social incidents are thus critical to the recovery of domestic consumption. It is believed that the near-term outlook for the Hong Kong economy is extremely challenging and subject to downside risks.

Notwithstanding the prevailing challenges and uncertainties, with strong competitive edges and superb geographical location in the heart of Asia, Hong Kong is well-positioned to capitalise on the development and thus the medium-term outlook for the Hong Kong economy is still positive. Looking at the long-term macro environment, riding on the two national policies, namely the Belt and Road Initiative and the Guangdong-Hong Kong Macao Bay Area development, Hong Kong will further enhance its role as the business bridge between the Mainland and the rest of the world. The retail industry in Hong Kong and Macau will undoubtedly benefit from that.

The management will continue to monitor the effects from the potential global issues and social incidents in order to strength our core business and seek for better growth prospects and returns. The Group will also emphasis on costs control and review the retail strategy.

The management believes, with the tremendous efforts by all our staff, the Group is well positioned to turn challenges into opportunities and will strengthen our competitiveness overcome the challenges in the coming future and continue our growth with the diverting business model.

FINANCIAL REVIEW

Revenue

During the year, total revenue decreased to approximately HK$231.6 million, representing a decrease of 12.4% as compared to approximately HK$264.3 million recorded in last year. Handbags were the most important product category for the Group, representing over 87% of the total revenue of the Group. The revenue generated from the sales of unused products decreased to approximately HK$175.7 million recorded in last year, representing 75.9% 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 2019, the revenue generated from the Hong Kong market was approximately HK$217 million, representing approximately 93.7% of the total revenue of the Group. No revenue was generated from the Mainland China market during the year. Revenue generated from the Macau market increased from approximately HK$14.1 million during the last year to approximately HK$14.6 million during the year ended 31 December 2019.

Management Discussion and Analysis

The table below sets out the breakdown of the Group's revenue recorded for the years ended 31 December 2019 and 2018 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				
	2019		2018		
		Percentage of total revenue		Percentage of total revenue	Percentage change in revenue
	HK$ million	%	HK$ million	%	%
By product categories (handbags and other products)					
Handbags	201.4	87.0	241.1	91.2	(16.5)
Other products*	30.2	13.0	23.2	8.8	30.2
Total	231.6	100	264.3	100.0	(12.4)
By product categories (unused and second-hand products)					
Unused products	175.7	75.9	187.5	70.9	(6.3)
Second-hand products	55.9	24.1	76.8	29.1	(27.2)
Total	231.6	100	264.3	100.0	(12.4)
By price range of products					
Within HK$10,000	43.6	18.8	52.8	20.0	(17.4)
HK$10,001 – HK$30,000	41.7	18.0	48.7	18.4	(14.4)
HK$30,001 – HK$50,000	17.2	7.4	20.8	7.9	(17.3)
Above HK$50,000	129.1	55.8	142.0	53.7	(9.1)
Total	231.6	100	264.3	100.0	(12.4)
By geographical locations					
Hong Kong	217.0	93.7	250.2	94.7	(13.3)
Macau	14.6	6.3	14.1	5.3	3.5
Total	231.6	100	264.3	100.0	(12.4)

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

Cost of sales

For the year ended 31 December 2019, cost of sales for the Group was approximately HK$183.8 million, decreased by 13.6% year-on-year. Cost of sales mainly consisted of cost of inventories sold by the Group's suppliers.

Gross profit and gross profit margin

Gross profit of the Group for the year under review decreased by HK$3.8 million to approximately HK$47.8 million, with its gross profit margin increased slightly from 19.5% to 20.6%.

Inventory

The Group's total inventories as at 31 December 2019 and 2018 were HK$41 million and HK$40.5 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 changed to 81 days for the year ended 31 December 2019 (2018: 75 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	
	2019	2018
	HK$'000	HK$'000
Aging of inventories (handbags products)		
0 to 90 days	**13,377**	12,549
91 to 180 days	**4,778**	8,410
181 days to 1 year	**9,289**	8,453
Over 1 year	**10,876**	8,456
Total	**38,320**	37,868

Management Discussion and Analysis

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

	31 December	
	2019	2018
	HK$'000	HK$'000
Aging of inventories (other products)		
0 to 45 days	**281**	874
46 to 90 days	**684**	1,196
91 days to 1 year	**1,154**	375
Over 1 year	**593**	219
Total	**2,712**	2,664

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	
	2019	2018
	HK$'000	HK$'000
Aging of inventories (handbags products over HK$50,000)		
0 to 90 days	**9,556**	6,908
91 to 180 days	**2,877**	4,643
181 days to 1 year	**5,294**	4,373
Over 1 year	**5,973**	3,546
Total	**23,700**	19,470

Other (loss)/income and gains, net

During the year ended 31 December 2019, other loss amounted to approximately HK$1.9 million, significant decreased by HK$6.5 million as compared to other loss amounted to approximately HK$8.4 million in last year. It was mainly attributable to the decrease in fair value loss on financial assets through profit or loss of approximately HK$6.2 million.

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 2019, selling expenses of the Group were approximately HK$33.2 million, representing 14.3% of the Group's revenue (2018: approximately HK$47.6 million, representing 18% 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 2019 amounted to approximately HK$32.9 million, decreased by approximately HK$3.7 million as compared to last year on a year-on-year basis, representing approximately 14.2% 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.

Finance costs

Finance costs of the Group mainly consisted of interest expenses on bank borrowings and finance lease. Finance costs amounted to approximately HK$1.2 million in 2019, increased by HK$0.9 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 2019 was approximately HK$23.5 million, representing an decrease of 41.3% from approximately HK$40 million for the year ended 31 December 2018. Loss per share attributable to the owners of the Company was approximately HK11.5 cents for the year ended 31 December 2019, as compared to approximately HK19.7 cents for the year ended 31 December 2018.

Employees and remuneration policy

As at 31 December 2019, the Group had a total of 68 employees (2018: 67 employees). The Group's remuneration policy was determined according to the position, performance and experience of the staff as well as the market trend. Staff benefits of the Group include basic salaries, subsidies, insurance and commission/bonus. The remuneration policy was reviewed by the Board from time to time. The emoluments of Directors were reviewed by the remuneration committee of the Company and recommended to the Board for approval after considering the Group's operating results, individual performance and comparing with marketing conditions.

Management Discussion and Analysis

Liquidity and financial resources

As at 31 December 2019 and 31 December 2018, the Group did not have any bank borrowing.

As at 31 December 2019, the Group's total balance of cash and cash equivalents, total liabilities and shareholders' equity were approximately HK$8.4 million, HK$41.2 million and HK$61.4 million respectively (2018: approximately HK$22.6 million, HK$34.4 million and HK$80.5 million respectively). The Group's gearing ratio, current ratio and quick ratio as at 31 December 2019 were approximately 29.2%, 2.1 and 1.0 respectively (2018: 7.8%, 3.3 and 1.9 respectively).

Pledge of assets

As at 31 December 2019 and 31 December 2018, 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 and Renminbi ("RMB"). 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 2019, 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 2019 and 31 December 2018.

EXECUTIVE DIRECTORS

Mr. Hu Bo, aged 44, 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）.

Mr. Li Zhongqi, aged 30, was appointed as an Executive Director on 16 April 2019. He was graduated from Guangdong University of Technology in 2011. He has extensive experience in management, formulating and implementing the strategic plan including overseeing the completion operation in accordance with the direction established in the strategic plans. Prior joining to the Group, he was the Chief Operating Officer at Guangdong Yili Engineering Co., Limited*（廣東宜利工程有限公司）

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Hung, aged 48, 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 45, 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 19 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 37, was appointed as an Independent Non-executive Director on 1 February 2018. He is currently working with Supreme China Securities Limited as the marketing manager. He is responsible for the managerial works and monitor the overall business. Before Supreme China Securities Limited, he worked with China Information Technology Development Limited as the investment project consultant which is responsible for assessing expected return on individual investment projects. Mr. Choi obtained Bachelor Degrees in Business Administration-Finance and Economics from State university of New York at Stony Brook.

Biographical Details

SENIOR MANAGEMENT

Mr. Chan Hon Leung, aged 50, 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 47, 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 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 2019 (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 2019.

CAPITAL STRUCTURE AND TREASURY POLICIES

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

BOARD OF DIRECTORS

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

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

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

Corporate Governance Report

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

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

	Directors	**Number of attendance/ Eligible to attended**
Executive Directors	Hu Bo	5/6
	Li Zhongqi (appointed on 16 April 2019)	1/2
	Cao Huijuan (resigned on 16 April 2019)	3/6
Independent Non-executive Directors	Chan Chi Hung	6/6
	Tou Kin Chuen	6/6
	Choi Kam Yan, Simon	6/6

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 15 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.

The attendance of the Directors at the Annual General Meeting ("AGM") held on 6 June 2019, are as follows:

	Directors	AGM
Executive Directors	Hu Bo	0/1
	Li Zhongqi (appointed on 16 April 2019)	0/1
Independent Non-executive Directors	Chan Chi Hung	1/1
	Tou Kin Chuen	1/1
	Choi Kam Yan, Simon	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 2019 is as follow:

	Directors	Course/seminar provided/ accredited by professional body	Reading materials
Executive Directors	Hu Bo	–	✓
	Li Zhongqi (appointed on 16 April 2019)	–	✓
	Cao Huijuan (resigned on 16 April 2019)	–	✓
Independent Non-executive Directors	Chan Chi Hung	✓	–
	Tou Kin Chuen	✓	–
	Choi Kam Yan, Simon	✓	–

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.

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)*	3/3
	Chan Chi Hung	3/3
Executive Director	Hu Bo	3/3

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 2019 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 2019 are set out in note 9 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 2019 and the audited financial statements for the year ended 31 December 2018 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 2019 and the audited financial statements of the Group for the year ended 31 December 2018;

(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$738,000 for auditing services and HK$162,000 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	738
Non-audit services:	
Taxation services	162
	900

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 2019 and for the year ended 31 December 2019, 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 44 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 2019, 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 2019.

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
Room 13, 6/F, Block A
Hong Kong Industrial Centre,
489-491 Castle Peak Road,
Kowloon

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 2019.

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 17 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 2019 are provided in the "Director's Statement" and "Management Discussion and Analysis" on pages 5 to 6 and pages 7 to 14, respectively, of this annual report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2019 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 to 124 of this annual report.

The Board has resolved not to declare a final dividend for the year ended 31 December 2019 (2018: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 2 June 2020 to Friday, 5 June 2020 (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 Monday, 1 June 2020.

USE OF NET PROCEEDS

(i) The proceeds from the listing, after deduction of related issuance expenses, amounted to HK$6.7 million.

As at 31 December 2019, 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	Amount utilises for the year end 31 December 2019	Balance as at 31 December 2019
	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	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	3.0	5.3
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	0.3	1.5
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	3.3	6.7

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 125 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 33 of this report.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, 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 2019 are set out in note 36 to the financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution amounted to approximately HK$22,479,000, 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 2019 of approximately HK$751,029,000. 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 2019, the Group's sales to the five largest customers and purchases from the five largest suppliers accounted for less than 30% of the Group's turnover and purchases, respectively.

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

Report of the Directors

DIRECTORS

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

Executive Directors:
Mr. Hu Bo
Mr. Li Zhongqi (appointed on 16 April 2019)
Ms. Cao Huijuan (resigned on 16 April 2019)

Independent Non-executive Directors:
Mr. Chan Chi Hung
Mr. Tou Kin Chuen
Mr. Choi Kam Yan, Simon

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

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

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 15 and 16 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Hu Bo an Executive Directors, has renewed a letter of appointment and is appointed for an initial term of 1 year commencing on 6 June 2019, 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 2020.

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 2019, 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 31 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 2019.

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 2019.

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 2019, the Directors and the chief executive of the Company had the following interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)(the "SFO")) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange.

Long positions in share options of the Company

	Number of share options			Approximate percentage of total number of issued shares
Name of participants	Personal Interest	Family Interest	Total	
Executive Directors				
Mr. Hu Bo	2,000,000	–	2,000,000	0.98%

Note: The Share Consolidation of every four issued and unissued existing shares of par value of HK$0.01 each in the share capital of the Company into one consolidated share with a par value of HK$0.04 each was effective on 24 March 2020. The corresponding share option was adjusted.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

SHARE CONSOLIDATION

An extraordinary general meeting (the "EGM") was held on 20 March 2020 in which the resolutions regarding the proposed share consolidation involving the consolidation of every four (4) issued and unissued existing shares of par value of HK$0.01 each in the share capital of the Company into one (1) consolidated share with a par value of HK$0.04 each (the "Share Consolidation") was passed by the shareholders of the Company. The Share Consolidation became effective on 24 March 2020. Upon completion of the Share Consolidation, the authorised share capital of the Company was HK$20,000,000 divided into 5,000,000 Shares, of which 203,408,250 Shares are in issue and fully paid. Details of the Share Consolidation were disclosed in the Company's announcements dated 20 February 2020, 24 March 2020 and the circular of the Company dated 4 March 2020.

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.

During the year ended 31 December 2019, 81,226,000 share options were granted by the Company under the scheme, 13,485,000 share options were lapsed and no share option were exercised. The Share Consolidation of every four issued and unissued existing shares of par value of HK$0.01 each in the share capital of the Company into one consolidated share with a par value of HK$0.04 each was effective on 24 March 2020. The outstanding number of the shares available for issue under the Scheme after the adjustment for the completion of share consolidation is 37,161,500, representing approximately 18.3% of the issued share capital of the Company as at 26 March 2019 (i.e. 203,408,250 shares).

The movements in share options granted under the Scheme during the year ended 31 December 2019 are shown below:

	Number of share options										
Name or category of participants	At 1 January 2019	Granted during the year	Exercised during the year *(Note)*	Expired during the year	Reclassified during the year	Lapsed during the year	Outstanding before share consolidation	At 31 December 2019	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
Director											
Hu Bo	–	8,000,000	–	–	–	–	8,000,000	2,000,000	27-7-17	27-7-17 to 26-7-22	0.472
Other employees											
In aggregate	13,485,000	–	–	–	–	(13,485,000)	–	–			
	67,420,000	–	–	–	–	–	67,420,000	16,855,000	27-7-17	27-7-17 to 26-7-22	0.7
	–	73,226,000	–	–	–	–	73,226,000	18,306,500	12-4-19	12-4-19 to 11-4-22	0.472
	20,227,000	81,226,000	–	–	–	–	148,646,000	37,161,500			

Note: The Share Consolidation of every four issued and unissued existing shares of par value of HK$0.01 each in the share capital of the Company into one consolidated share with a par value of HK$0.04 each was effective on 24 March 2020. The corresponding share option and exercise price were adjusted.

The closing price of the Company's shares immediately before the date on which the share options were granted, i.e., 27 July 2017 and 12 April 2019, were HK$0.7 and HK$0.472 per share respectively.

The Directors have estimated the values of the share options granted on 27 July 2017 and 12 April 2019, 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
Director and other employees	37,161,500	10,781

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 2019, 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	22,025,000 *(Note)*	10.83%
Chen Huaijun	Beneficial owner	12,500,000	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 22,025,000 shares held by Perfect One Enterprises Limited.

Save as disclosed above, as at 31 December 2019, 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.

		2019	2018
	Notes	**HK$'000**	HK$'000
Rental expenses paid to related companies	*(a)*	**5,748**	6,048

Notes:

(i) 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 31 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 2019, save for certain derivations. The Corporate Governance Report is set out on pages 17 to 26 of this annual report.

ENVIRONMENTAL POLICIES AND SOCIAL RESPONSIBILITIES

In 2019, 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 within the period as required by the Listing Rules.

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 34 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.

EQUITY-LINKED AGREEMENTS

Save for disclosed in the sections headed "Share Options" on pages 32 to 33 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 2019 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 17 to 26 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, 2018 and 2019 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 2020

Independent Auditors' Report

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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

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 45 to 123, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the 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 context 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 2019, the carrying values of inventories were HK$41,032,000 (net of allowance of HK$2,506,000).	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 2019; • Testing the accuracy of the inventories ageing analysis as at 31 December 2019, on sample basis; • Assessing the reasonableness of the net realisable 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.
Impairment assessment of intangible assets and goodwill	
Refer to note 3 and 15 to the consolidated financial statements	
Management performed impairment assessment of intangible assets and goodwill allocated to spa and wellness products cash generating unit and concluded that an impairment loss of approximately HK$2,508,000 were recognised. This conclusion was 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.

Key audit matter	How our audit addressed the key audit matter

Allowance for expected credit losses of loan receivables

Refer to Note 3 and 22 to the consolidated financial statements.

As at 31 December 2019, the Group's loan receivables amounted to HK$12,521,000 and a provision for impairment of loan receivables of HK$148,000 was recognised in the Group's consolidated statement of financial position.

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

Management assesses whether the credit risk of loan receivables have increased significantly since their initial recognition, and apply 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 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.

Independent Auditors' Report

Other Information

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

Independent Auditors' Report

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

The engagement director on the audit resulting in this independent auditors' report is Wong Sze Wai, Basilia.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Wong Sze Wai, Basilia
Practising Certificate Number: P05806

Hong Kong, 26 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Note	2019	2018
		HK$'000	HK$'000
REVENUE	5	231,616	264,293
Cost of sales		(183,821)	(212,654)
Gross profit		47,795	51,639
Other (loss)/income and gains, net	6	(1,880)	(8,387)
Impairment loss on intangible asset		(2,508)	–
Selling expenses		(33,228)	(47,574)
Administrative and other operating expenses		(32,911)	(36,656)
Finance costs	7	(1,226)	(361)
LOSS BEFORE TAX	8	(23,958)	(41,339)
Income tax credit	11	9	1,379
LOSS FOR THE YEAR		(23,949)	(39,960)
Attributable to:			
Owners of the Company		(23,491)	(40,012)
Non-controlling interests		(458)	52
		(23,949)	(39,960)
			(Restated)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Basic and diluted	13	HK(11.5 cent)	HK(19.7 cents)

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	2019	2018
	HK$'000	HK$'000
LOSS FOR THE YEAR	(23,949)	(39,960)
OTHER COMPREHENSIVE INCOME/(LOSS):		
Item that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(8)	619
Total other comprehensive (loss)/income for the year	(8)	619
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(23,957)	(39,341)
Attributable to:		
Owners of the Company	(23,499)	(39,393)
Non-controlling interests	(458)	52
	(23,957)	(39,341)

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,626**	9,115
Intangible assets	15	**–**	3,073
Right-of-use assets	16	**16,555**	–
Deposits	19	**1,439**	3,368
Total non-current assets		**21,620**	15,556
CURRENT ASSETS			
Inventories	20	**41,032**	40,532
Trade receivables	21	**3,883**	3,715
Loan receivables	22	**12,521**	8,392
Prepayments, deposits and other receivables	19	**5,249**	9,872
Financial assets at fair value through profit and loss	18	**9,250**	13,995
Tax recoverable		**–**	82
Cash and cash equivalents	23	**8,417**	22,554
Total current assets		**80,352**	99,142
CURRENT LIABILITIES			
Trade and other payables	24	**22,832**	27,401
Lease liabilities/Obligations under finance leases	25	**14,300**	2,286
Tax payable		**578**	409
Total current liabilities		**37,710**	30,096
NET CURRENT ASSETS		**42,642**	69,046
TOTAL ASSETS LESS CURRENT LIABILITIES		**64,262**	84,602
NON-CURRENT LIABILITIES			
Lease liabilities/Obligations under finance leases	25	**3,465**	3,976
Provisions	26	**55**	102
Deferred tax liabilities	27	**–**	220
Total non-current liabilities		**3,520**	4,298
NET ASSETS		**60,742**	80,304
EQUITY			
Issued capital	28	**8,136**	8,136
Reserves		**53,307**	72,411
Equity attributable to owners of the Company		**61,443**	80,547
Non-controlling interests		**(701)**	(243)
TOTAL EQUITY		**60,742**	80,304

Approved and authorised for issue by the board of directors on 26 March 2020 and signed on its behalf by:

Hu Bo
Director

Cao Huijuan
Director

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

Year ended 31 December 2019

	Attributable to owners of the Company										
	Issued Capital	Share premium account	Capital reserve	Merger reserves	Statutory reserve fund	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$'000 *(note 30)*	HK$'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

Consolidated Statement of Changes In Equity

Year ended 31 December 2019

	Attributable to owners of the Company										
	Issued Capital	Share premium account	Capital reserve	Merger reserves	Statutory reserve fund	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$'000 *(note 29)*	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2019	8,136	218,508	10	(23,782)	30	496	10,047	(132,898)	80,547	(243)	80,304
Loss for the year	–	–	–	–	–	–	–	(23,491)	(23,491)	(458)	(23,949)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(8)	–	–	(8)	–	(8)
Total other comprehensive loss	–	–	–	–	–	(8)	–	–	(8)	–	(8)
Total comprehensive loss for the year	–	–	–	–	–	(8)	–	(23,491)	(23,499)	(458)	(23,957)
Transfer of share option reserve upon the lapse of share options	–	–	–	–	–	–	(3,662)	3,662	–	–	–
Share based payment expenses	–	–	–	–	–	–	4,395	–	4,395	–	4,395
At 31 December 2019	8,136	218,508	10	(23,782)	30	488	10,780	(152,727)	61,443	(701)	60,742

These reserve accounts comprise the consolidated reserves of HK$53,307,000 (2018: HK$72,411,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(23,958)**	(41,339)
Adjustments for:			
Interest income	6	**(19)**	(11)
Gain on disposal of property, plant and equipment	6	**–**	(1,980)
Gain on disposal of right-of-use assets	6	**(310)**	–
Loss on write-off of property, plant and equipment	8	**–**	280
Impairment loss on intangible assets	8	**2,508**	–
Write down for slow-moving inventories, net	8	**2,506**	2,399
Depreciation expenses	8	**23,423**	6,132
Amortisation of intangible assets	8	**565**	565
Net allowances for expected credit losses	6	**91**	(63)
Fair value (gain)/loss on financial assets at fair value through profit and loss	6		
– Unrealised		**4,745**	10,959
– Realised		**–**	(166)
Share-based payment expenses		**4,395**	–
Finance costs	7	**1,226**	361
		15,172	(22,863)

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
(Increase)/decrease in inventories		**(3,006)**	3,798
(Increase)/decrease in trade receivables		**(122)**	2,169
Increase in loan receivables		**(4,169)**	(3,771)
Decrease in prepayments, deposits and other receivable		**6,455**	14,441
Increase/(decrease) in trade and other payables		**9,931**	(4,310)
Decrease in other liabilities		**–**	(46)
(Decrease)/increase in provisions		**(47)**	12
Cash generated from/(used in) operations		**24,214**	(10,570)
Hong Kong profits tax refunded		**40**	623
Net cash generated from/(used in) operating activities		**24,254**	(9,947)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**19**	11
Purchases of items of property, plant and equipment		**(2,147)**	(6,199)
Purchase of financial assets at fair value through profit or loss		**–**	(9,960)
Proceeds from disposal of right-of-use assets		**310**	3,454
Proceeds from disposal of financial assets of fair value through profit or loss		**–**	5,166
Net cash used in from investing activities		**(1,818)**	(7,528)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in loan payable		**–**	14,500
Capital element of finance lease payables		**–**	2,832
Interest paid		**(41)**	(48)
Interest elements on lease liabilities		**(1,185)**	(313)
Repayment of loan payable		**(14,500)**	(7,909)
Repayment of lease liabilities		**(20,839)**	–
Net cash (used in)/generated from financing activities		**(36,565)**	9,062
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(14,129)**	(8,413)
Cash and cash equivalents at the beginning of the year		**22,554**	30,348
Effect of foreign exchange rate changes, net		**(8)**	619
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	**8,417**	22,554

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. CORPORATE INFORMATION

The Company was a public limited company incorporated in the Cayman Islands on 1 November 2007 as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited. Its parent is Perfect One Enterprises Limited (incorporated in the British Virgin Islands) and its ultimate controlling party is Mr. Yiu Kwan Tat. 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 Room 13, 6/F, Block A, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Kowloon.

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)*

Basis of preparation *(continued)*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

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 2019. 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 Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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.

HKFRS 16 Leases

Transition and summary of effects arising from initial application of HKFRS 16

On 1 January 2019, the Group has applied HKFRS 16. HKFRS 16 superseded HKAS 17, and the related interpretations. The Group applied the HKFRS 16 in accordance with the transition provisions of HKFRS 16.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HKFRIC – Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

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

HKFRS 16 Leases *(continued)*

As a lessor

During the year ended 31 December 2019, application of HKFRS 16 by the Group as a lessor has no material impact on the Group's consolidated financial statements.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

ii. applied a single discount rate to a portfolio of leases with a similar remaining term for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong was determined on a portfolio basis;

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;

iv. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

v. relied on the assessment of whether lease are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment view.

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

HKFRS 16 Leases *(continued)*

As a lessee *(continued)*

On transition, the Group has made the following adjustments upon application of HKFRS 16:

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by relevant group entities ranged from 3.95% to 7.75%.

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	52,545
Less: practical expedient – leases with lease term ending within 12 months from date of initial application	(2,185)
Less: Leases not yet commenced on 1 January 2019	(25,560)
Less: Effect from discounting at the incremental borrowing rate as at 1 January 2019	(1,535)
	23,265
Add: obligation under finance lease recognised as at 31 December 2018	6,262
Lease liabilities	29,527
Analysed as:	
Current	25,551
Non-current	3,976
	29,527

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

HKFRS 16 Leases *(continued)*

As a lessee *(continued)*

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Right-of-use assets
	HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	23,265
Add: Right-of-use assets relating to deposits of operating leases recognised upon application of HKFRS 16	200
Add: Amounts included in property, plant and equipment under HKAS 17	
– Assets previously under finance leases	5,405
	28,870
By class	
Vehicle	5,405
Building	23,465
	28,870

Note:

In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to HK$5,405,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of HK$2,286,000 and HK$3,976,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

HKFRS 16 Leases *(continued)*

***As a lessor** (continued)*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously report at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	HK$'000	HK$'000	HK$'000
Non-current assets			
Property, plant and equipment	9,115	(5,405)	3,710
Right-of-use assets	–	28,870	28,870
Current assets			
Prepayments, deposits and other receivables	9,872	(200)	9,672
Current liabilities			
Obligation under finance lease	2,286	(2,286)	–
Lease liabilities – due within one year	–	25,551	25,551
Non-current liabilities			
Obligation under finance lease	3,976	(3,976)	–
Lease liabilities – due over one year	–	3,976	3,976

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

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

Issued but not yet effective Hong Kong Financial Reporting Standard

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9 HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after a date to be determined

2 Effective for annual periods beginning on or after 1 January 2021

3 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

4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised "Conceptual Framework for Financial Reporting" was issued in 2018. Its consequential amendments, the "Amendments to References to the Conceptual Framework" in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020. The directors of the Company anticipate that the application of all other new and amendments to HKFRSs 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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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);

(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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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:

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.

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.

Leasing (upon application HKFRS 16)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (upon application HKFRS 16) *(continued)*

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (upon application HKFRS 16) *(continued)*

As a lessee *(continued)*

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (upon application HKFRS 16) *(continued)*

As a lessee *(continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

As a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (upon application HKFRS 16) *(continued)*

As a lessor *(continued)*

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Leases (before application of HKFRS 16)

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

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.

Financial assets

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

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

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

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Amortised cost and interest income

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

Financial assets at FVTPL

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

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

Impairment of financial assets

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

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

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

Significant increase in credit risk

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Significant increase in credit risk *(continued)*
In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Definition of default *(continued)*

Credit-impaired financial assets

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

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

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

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

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

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

Write-off policy

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

Measurement and recognition of ECL

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Definition of default *(continued)*

Measurement and recognition of ECL (continued)

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

- Nature of financial instruments (i.e. the Group's trade and other receivables, and loan receivables are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

Financial liabilities and equity instruments

Classification as financial liabilities or equity

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities

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

Financial liabilities at amortised cost

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

Derivative financial instruments

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value 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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Revenue recognition

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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.

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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.

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

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 2019 was HK$Nil (2018: 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.

Estimated impairment of trade and loan receivable

The loss allowances for financial assets 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.

Impairment of right-of-use assets

Right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, 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 estimating the recoverable amounts including cash flow projections and an appropriate discount rate. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amounts of right-of-use assets amounted to HK$16,555,000, No impairment losses were recognised during the year ended 31 December 2019. Details of the right-of-use assets are disclosed in note 16.

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	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2019				
Revenue from external customers	216,972	14,644	–	231,616
Non-current assets	21,618	2	–	21,620
Capital expenditure	2,143	–	–	2,143
Year ended 31 December 2018				
Revenue from external customers	250,167	14,126	–	264,293
Non-current assets	12,470	12	1	12,483
Capital expenditure	6,199	–	–	6,199

The non-current assets information excludes intangible 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 (2018: Nil) and no information about major customers is presented accordingly.

Information about major products

	2019	2018
	HK$'000	HK$'000
Handbags	201,387	241,056
Other products	30,229	23,237
	231,616	264,293

5. REVENUE

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

	2019	2018
	HK$'000	HK$'000
Disaggregation of revenue from contracts with customers		
Revenue from contracts with customers:		
Sales of handbags	201,387	241,056
Sales of natural aroma, skincare products and accessories	30,229	23,237
	231,616	264,293
Timing of revenue recognition:		
A point in time	231,616	264,293
Over time	–	–
	231,616	264,293
Geographical market:		
Hong Kong	216,972	250,167
Macau	14,644	14,126
The PRC	–	–
	231,616	264,293

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 to the consolidated financial statements.

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

	2019	2018
	HK$'000	HK$'000
Other (loss)/income and gains, net		
Bank interest income	19	11
Change on fair value of other financial assets	–	–
Fair value gain/(loss) on financial assets through profit and loss		
– Unrealised	(4,745)	(10,959)
– Realised	–	166
Net allowances for expected credit losses	(91)	63
Gain on disposal of property, plant and equipment	–	1,980
Gain on disposal of right-of-use assets	310	–
Loss on written off of property, plant and equipment	–	(280)
Interest income	1,210	70
Others	1,417	562
	(1,880)	(8,387)

7. FINANCE COSTS

	2019	2018
	HK$'000	HK$'000
Interest expenses on loan payable	41	48
Interest expenses on lease liabilities/obligations under finance lease	1,185	313
	1,226	361

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8. LOSS BEFORE TAX

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

	2019	2018
	HK$'000	HK$'000
Cost of inventories recognised as an expense	183,821	212,654
Write down for slow-moving inventories included in cost of inventories recognised as an expense	2,506	2,399
Depreciation		
– owned assets	2,231	2,952
– assets under finance lease	–	3,180
– right-of-use assets	21,192	–
	23,423	6,132
Amortisation of intangible assets	565	565
Net exchange gain	–	(20)
Operating lease rentals in respect of rented premises		
– Minimum lease payments	–	24,826
– Contingent rentals	–	2,946
	–	27,772
Expenses relating to short term lease	4,189	–
Impairment of intangible assets	2,508	–
Share-based payment expenses		
Directors	433	–
Others	3,962	–
Auditors' remuneration	900	1,000
Loss on write-off of property, plant and equipment	–	280
Employee benefit expenses (excluding directors' emoluments)		
Salaries, wages and other benefits	13,080	23,142
Pension scheme contributions	609	839
Equity-settled share option expense	–	–
	13,689	23,981

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 2019						
Executive directors:						
Mr. Hu Bo	–	240	–	12	433	685
Mr. Cao Huijuan	–	71	–	–	–	71
Mr. Li Zhongqi	–	128	–	–	–	128
	–	439	–	12	433	884
Independent non-executive directors:						
Mr. Choi Kam Yan, Simon	120	–	–	–	–	120
Mr. Chan Chi Hung	200	–	–	–	–	200
Mr. Tou Kin Chuen	200	–	–	–	–	200
	520	–	–	–	–	520
Sub-total:	520	439	–	12	433	1,404

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 2018						
Executive directors:						
Mr. Hu Bo	–	242	–	14	–	256
Mr. Cao Huijuan	–	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

There was no arrangement under which a director and chief executive has waived or agreed to waive any emoluments during the year (2018: Nil).

During the year ended 31 December 2019, 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 (2018: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2018: Nil directors), details of whose remuneration are set out in note 9 above. Details of the emoluments for the year of the remaining four (2018: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019	2018
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,388**	5,062
Discretionary bonus	**–**	–
Pension scheme contributions	**84**	76
Equity-settled share option expense	**433**	–
	3,905	5,138

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	
	2019	2018
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**–**	–

During the current year, share options were granted to director in respect of his services to the Group. In prior years, no share options were granted to non-director and non-chief executive highest paid employees, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which had been recognised in the consolidated statement of profit or loss, was determined as at the date of grant and the amount included in the consolidated 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 2019, 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 (2018: Nil).

11. INCOME TAX CREDIT

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%.

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.

	2019	2018
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**211**	88
Over-provision in prior years	**–**	(1,243)
Deferred tax	**(220)**	(224)
Total tax credit for the year	**(9)**	(1,379)

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	
	2019	2018
	HK$'000	HK$'000
Loss before tax	**(23,958)**	(41,339)
Tax at the statutory tax rates	**(3,977)**	(3,325)
Over provision in previous years	**–**	(1,243)
Tax effect of non-taxable income	**(1,324)**	(8,449)
Tax concession	**(60)**	(40)
Tax effect of non-deductible expenses	**1,868**	14,192
Tax effect of tax losses not recognised	**3,484**	(2,514)
Actual tax credit	**(9)**	(1,379)

There was no income tax relation to components of other comprehensive income for the years ended 31 December 2019.

12. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2019 (2018: 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$23,491,000 (2018: HK$40,012,000) and the weighted average of 203,408,250 ordinary shares (2018: Restated 203,408,250) in issue during the year as adjusted to reflect the effect of the share consolidation. Comparative figure have also been adjusted on the assumption that the share consolidation had been effective in the prior period, further details are included in the disclosures in note 37 to the financial statement.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2019 and 2018 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

	Leasehold improvements	Furniture, Fixtures and office equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
2019				
Cost:				
At 31 December 2018	19,136	12,146	12,893	44,175
Adjustments upon application of HKFRS 16 *(note 2)*	–	–	(12,893)	(12,893)
1 January 2019 (restated)	19,136	12,146	–	31,282
Additions	1,715	432	–	2,147
At 31 December 2019	20,851	12,578	–	33,429
Accumulated depreciation:				
At 31 December 2018	15,877	11,695	7,488	35,060
Adjustments upon application of HKFRS 16 *(note 2)*	–	–	(7,488)	(7,488)
1 January 2019 (restated)	15,877	11,695	–	27,572
Depreciation charge for the year	2,002	229	–	2,231
At 31 December 2019	17,879	11,924	–	29,803
Carrying amount:				
At 31 December 2019	2,972	654	–	3,626

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
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

The carrying amount of the Group's motor vehicles held under finance lease amounted to HK$5,405,000 as at 31 December 2018.

Upon initial application of HKFRS 16, the Group's motor vehicles were classified as right-of-use assets.

15. INTANGIBLE ASSETS

	Goodwill	Exclusive distribution right	Total
	HK$'000	HK$'000	HK$'000
2019			
Cost:			
At 1 January 2018, 31 December 2018 and 1 January 2019 and at 31 December 2019	2,013	2,826	4,839
Accumulated amortisation and impairment:			
At 1 January 2018	–	1,201	1,201
Charge for the year	–	565	565
At 31 December 2018 and 1 January 2019	–	1,766	1,766
Charge for the year	–	565	565
Impairment	2,013	495	2,508
At 31 December 2019	2,013	2,826	4,839
Carrying amount:			
At 31 December 2019	–	–	–
At 31 December 2018	2,013	1,060	3,073

Amortisation of exclusive distribution right of HK$565,000 (2018: HK$565,000) has been recognised 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.

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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:

	2019	2018
	%	%
Gross margin	**69.0**	69.8
Long-term growth rate	**3**	3
Pre-tax discount rate	**15.27**	15.04

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 15.27% (2018: 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.

Impairment loss of approximately HK$2,508,000 was recognised during the year ended 31 December 2019 as spa and wellness products business operation does not turn out as previously expected, due to the downturn of Hong Kong retail market.

16. RIGHT-OF-USE ASSETS

	Motor vehicle	Leased Properties	Total
	HK$'000	HK$'000	HK$'000
Cost			
At 1 January 2019 *(Note 2)*	12,893	23,465	36,358
Additions	–	19,839	19,839
Disposals	(710)	(18,558)	(19,268)
At 31 December 2019	12,183	24,746	36,929
Accumulated depreciation and impairment losses			
At 1 January 2019 *(Note 2)*	7,488	–	7,488
Provided for the year	2,828	18,364	21,192
Disposals	(710)	(7,596)	(8,306)
At 31 December 2019	9,606	10,768	20,374
Carrying amounts			
At 31 December 2019	2,577	13,978	16,555
At 1 January 2019 (restated)	5,405	23,465	28,870

16. RIGHT-OF-USE ASSETS *(continued)*

Details of total cash outflow of leases is set out in the consolidated cash flow statements.

During the current year, the Group leases properties for self-own. Lease contracts are entered into for fixed term of two to three years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The carrying amount of the Group's motor vehicles held under finance lease amounted to HK$2,577,000 as at 31 December 2019.

17. 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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17. 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

17. 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.

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18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	HK$'000	HK$'000
Listed securities		
– Equity securities listed in Hong Kong	9,250	13,995

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 2019, the fair value of suspended trading security listed in Hong Kong with the amount of approximately HK$181,000 was reference to the valuation carried by Peak Vision Appraisals 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 2019. The discount rate is used to reflect the risk of exposure to corporate governance, illiquidity and financial distress etc.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019	2018
	HK$'000	HK$'000
Prepayments	326	820
Deposits	5,476	11,596
Other receivables	886	824
	6,688	13,240
Less: Non-current portion	(1,439)	(3,368)
	5,249	9,872

At 31 December 2019 and 2018, 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 34.

20. INVENTORIES

	2019	2018
	HK$'000	HK$'000
Goods held for resale	41,032	40,532

As at 31 December 2019, the carrying values of inventories are HK$41,032,000 (2018: HK$40,532,000), which are net of provision for obsolete and slow moving inventories HK$2,506,000 (2018: HK$2,399,000)

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.

	2019	2018
	HK$'000	HK$'000
Trade receivables	3,883	3,761
Less: allowance for expected credit losses	–	(46)
	3,883	3,715

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

	2019	2018
	HK$'000	HK$'000
Within 1 month	3,412	2,788
1 to 2 months	300	6
2 to 3 months	–	2
Over 3 months	171	919
	3,883	3,715

Customers are generally granted with credit term of 0-90 days during the year 2019 (2018: 0-90 days).

21. TRADE RECEIVABLES *(continued)*

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

	2019	2018
	HK$'000	HK$'000
Neither past due nor impaired	3,412	2,792
1 to 3 months past due	300	16
Over 3 months past due	171	907
	3,883	3,715

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 34.

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 2019.

	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
Reversal of ECL	(12)
At December 31, 2018 and 1 January 2019	46
Reversal of ECL	(46)
At 31 December, 2019	–

22. LOAN RECEIVABLES

The Group's loan receivables, which arise from the money lending business in Hong Kong, are interest-bearing and 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:

	2019	2018
	HK$'000	HK$'000
Within 3 months	463	8,392
3 to 6 months	463	–
Over 6 months	11,595	–
	12,521	8,392

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

Movement of allowances for expected credit loss that has been recognized for loan receivables in accordance with the general approach set out in HKFRS 9 for the year ended 31 December 2019.

	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
ECL	40
Balance as at 31 December 2019	148

Details of assessment on expected credit loss are set out in Note 34.

23. CASH AND CASH EQUIVALENTS

	2019	2018
	HK$'000	HK$'000
Cash and bank balances	8,417	22,554

23. CASH AND CASH EQUIVALENTS *(continued)*

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$673,000 (2018: HK$547,000). RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	HK$'000
Trade payables *(Note iv)*	6,894	935
Accrued liabilities	8,104	5,244
Other payables *(Note i)*	1,171	202
Amount due to non-controlling interest *(Note iii)*	3,960	3,960
Deposit received	2,703	2,560
Loan payables *(Note ii)*	–	14,500
	22,832	27,401

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 dates, is as follows:

	2019	2018
	HK$'000	HK$'000
Within 1 month	1,258	861
1 to 2 months	154	74
2 to 3 months	210	–
Over 3 months	5,272	–
	6,894	935

The credit period on purchase of goods range from 0 to 90 days.

25. LEASE LIABILITIES/OBLIGATIONS UNDER FINANCE LEASES

The Group leases motor vehicles under finance leases. At 31 December 2019 and 2018, the total future minimum lease payments under the finance leases and their present values were as follows:

	Minimum lease payments 2019	Minimum lease payments 2018	**Present value of minimum lease payments 2019**	Present value of minimum lease payments 2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**14,798**	2,532	**14,300**	2,286
On the second year	**3,232**	2,087	**3,068**	1,959
In the third to fifth years, inclusive	**416**	2,094	**397**	2,017
Total minimum finance lease payments	**18,446**	6,713	**17,765**	6,262
Future finance charges	**(681)**	(451)		
Total net finance lease payables	**17,765**	6,262		
Portion classified as current liabilities	**(14,300)**	(2,286)		
Non-current portion	**3,465**	3,976		

The Group entered into lease arrangements with independent third parties in relation to certain properties and motor vehicles. The lease terms ranged from 3-5 years (2018: 3-5 years). Interest rates of underlying lease liabilities at the date of inception is 3.95% to 7.75% and 1.65% to 2.5% per annum as at 31 December 2019 and 2018, respectively. Obligation under finance lease were reclassified to lease liabilities on 1 January 2019 upon the adoption of HKFRS 16 as set out in note 2.

The net carrying value of leased assets used to secure the lease obligations was HK$2,577,000 (2018: HK$5,405,000).

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

26. PROVISIONS

	2019	2018
	HK$'000	HK$'000
Provision for reinstatement costs		
Analysed for reporting purposes as:		
Non-current liabilities	55	102
	55	102

	HK$'000
Provision for reinstatement costs	
At 1 January 2018	90
Amounts provision during the year	12
At 31 December 2018	102
Amounts utilised during the year	(47)
At 31 December 2019	55

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 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 and 1 January 2019	(33)	(187)	(220)
Credited to the consolidated statement of profit or loss during the year *(Note 11)*	33	187	220
At 31 December 2019	–	–	–

27. DEFERRED TAX *(continued)*

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

ii) Reconciliation to the consolidated statement of financial position

	2019	2018
	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)
	–	(220)

b) Deferred tax assets not recognised

Certain subsidiaries of the Group have tax losses arising in Hong Kong in total of HK$101,741,000 (2018: HK$89,152,000) as at 31 December 2019 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 2019 and 2018, the Group had no other significant potential unprovided deferred tax liabilities not recognised.

28. SHARE CAPITAL

	2019	2018
	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 2018, 31 December 2018, 1 January 2019 and 31 December 2019	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:

	2019		2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	HK$ per share	'000	HK$ per share	'000
At 1 January	0.25	80,905	0.25	80,905
Share consolidation *(note 37)*	0.75	(111,484)	–	–
Granted during the year	0.472	81,226	–	–
Lapsed during the year	0.616	(13,485)	–	–
Outstanding at 31 December	0.74	37,162	0.25	80,905
Exercisable at 31 December	0.74	37,162	0.25	80,905

The movements in share options granted under the Scheme during the year ended 31 December 2019 are shown below:

	Number of share options										
Name or category of participants	At 1 January 2019	Granted during the year	Exercised during the year *(Note)*	Expired during the year	Reclassified during the year	Lapsed during the year	Outstanding before share consolidation *(Note)*	At 31 December 2019	Date of grant of share options	Validity period of share options	Exercise price of share options HK$ per share
Director – Hu Bo	–	8,000,000	–	–	–	–	8,000,000	2,000,000	12-4-19	12-4-19 to 11-4-22	0.472
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	16,855,000	27-7-17	27-7-17 to 26-7-22	0.7
	–	73,226,000	–	–	–	–	73,226,000	18,306,500	12-4-19	12-4-19 to 11-4-22	0.472
	80,905,000	81,226,000	–	–	–	(13,485,000)	148,646,000	37,161,500			

The options outstanding at 31 December 2019 had exercise prices of HK$0.7 or HK$0.472 (2018: HK$0.616 or HK$0.175) and a weighted average remaining contractual life of 3.46 years (2018: 3.03 years).

Note: The Share Consolidation of every four issued and unissued existing shares of par value of HK$0.01 each in the share capital of the Company into one consolidated share with a par value of HK$0.04 each was effective on 24 March 2020. The corresponding share option and exercise price were advised.

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:

2019 Number of options	Exercise price	Exercise period
’000	HK$ per share	
16,855	0.7	27 July 2017 to 10 July 2022
20,307	0.472	12 April 2019 to 11 April 2022
37,162		

2018 Number of options	Exercise price	Exercise period
’000	HK$ per share	
3,371	2.464	11 July 2015 to 10 July 2019
16,855	0.7	27 July 2017 to 10 July 2022
20,226		

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

	2019
Dividend yield *(%)*	0
Expected volatility *(%)*	70.33
Risk-free interest rate *(%)*	1.566
Expected life of options *(years)*	3
Price of the Company’s shares at the date of grant *(HK$ per share)*	0.472

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 37,161,500 (2018: 80,905,000) share options outstanding under the Scheme.

At the date of approval of these financial statements, the Company had 37,161,500 (2018: 80,905,000) share options outstanding under the Scheme, which represented approximately 18.27% (2018: 9.94%) of the Company’s shares in issue as at that date.

During the year ended 31 December 2019, there were 81,226,000 share options granted and HK$4,395,000 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 consolidated 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. MATERIAL RELATED PARTY TRANSACTIONS

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

	Notes	**2019** **HK'000**	2018 HK'000
Rental expenses paid to related companies	(i)	**5,748**	6,048
Purchases from a related company	(ii)	**–**	471

Notes:

(i) 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.

(ii) Purchases from a related company, in which Mr. Yiu has beneficial interest, were made on mutually agreed terms.

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.

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31. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

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
	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 32.

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

	2019	2018
	HK$'000	HK$'000
Short-term employee benefits	3,584	4,106
Equity-settled share option expense	433	–
Post-employment benefits	66	74
	4,083	4,180

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

32. 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
	HK$'000
Within one year	22,487
In the second to sixth years, inclusive	30,058
	52,545

33. 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

	2019	2018
	HK$'000	HK$'000
Financial assets at fair value through profit or loss	**9,250**	13,995
Financial assets at amortised cost/loans and receivables:		
Trade receivables	**3,883**	3,715
Loan receivables	**12,521**	8,392
Financial assets included in deposits and other receivables	**6,362**	12,420
Cash and cash equivalents	**8,417**	22,554
	31,183	47,081
	40,433	61,076

33. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities

	2019	2018
	HK$'000	HK$'000
Financial liabilities at amortised cost:		
Trade payables	6,894	935
Financial liabilities included in accrued liabilities and other payables	15,938	26,466
Lease liabilities/Obligations under finance leases	17,765	6,262
	40,597	33,663

34. 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 financial assets at fair value through profit or loss, trade receivables, loan receivables, financial assets included in deposits and other receivables, cash and cash equivalents, trade payables, financial liabilities included in accrued liabilities and other payables, and lease liabilities/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 2019 and 31 December 2018, the Group has no borrowing at variable interest rate and fixed interest rate that expose 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 2019. The directors of the Company will monitor the risks and consider hedging the risk exposure should the need arise.

34. 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 2019 would increase/decrease by HK$1,388,000 (2018: HK$2,099,000) 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$'000
Year ended 31 December 2019		
If HK$ weakens against RMB	**5**	**(34)**
If HK$ strengthens against RMB	**(5)**	**34**
Year ended 31 December 2018		
If HK$ weakens against RMB	5	(27)
If HK$ strengthens against RMB	(5)	27

34. 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 83.4% and 76.5% of total trade receivables outstanding at 31 December 2019 and 2018 were due from top 5 trade receivables which exposed the Group to concentration of credit risk.

As at 31 December, 2018 (HK$'000)	Within 1 month	1 to 2 months	2 to 3 months	Over 3 months	Total
Expected credit loss rate	0.9%	–	–	2.3%	1.2%
Gross carrying amount (HK$)	2,812	6	2	941	3,761
Lifetime ECL	(24)	–	–	(22)	(46)
	2,788	6	2	919	3,715

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

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 2019, based on past experience, the directors of the Company are of the opinion that provision for impairment of HK$148,000 (2018: HK$108,000) was recognised on individual loans is necessary in respect of these balances.

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.

Loan receivables

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Loan receivable , gross	8,500	–	–	8,500
Less: ECL on loan receivables	(108)	–	–	(108)
Loan receivables, net	8,392	–	–	8,392

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

Money lending business *(continued)*

	As at 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Loan receivable , gross	12,669	–	–	12,669
Less: ECL on loan receivables	(148)	–	–	(148)
Loan receivables, net	12,521	–	–	12,521

Movement for ECL of loan receivables are as follow:

	Stage 1	Stage 2	Stage 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2017 – HKAS39	102	–	–	102
Allowance for ECL on loan receivables	6	–	–	6
At 31 December 2018	108	–	–	108
Allowance for ECL on loan receivables	40	–	–	40
At 31 December 2019	148	–	–	148

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

Stage 1

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

Stage 2

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

Stage 3

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

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

Money lending business *(continued)*

Stage 3 *(continued)*

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

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

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

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

– the financial asset is past due.

Other receivables

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information.

The movement of loss allowances for other receivables during the year are as follows:

	Other receivables
	HK$'000
As at 31 December 2017	–
Amounts re-measured through opening accumulated losses	65
At 1 January 2018, restated	65
Allowance for expected credit losses	(57)
Balance as at 31 December 2018	8
Allowance for expected credit losses	97
Balance as at 31 December 2019	105

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

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.

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 2019				
	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	**6,894**	**–**	**–**	**6,894**	**6,894**
Financial liabilities included in accrued liabilities and other payables	**15,938**	**–**	**–**	**15,938**	**15,938**
Lease liabilities	**14,798**	**3,232**	**416**	**18,446**	**17,765**
	37,630	**3,232**	**416**	**41,278**	**40,597**

	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

34. 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 2019 and 2018.

- 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 2019	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at fair value through profit or loss	9,069	–	181	9,250

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

34. 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 in 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 classified to Level 3 fair value hierarchy.

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 2019 and 31 December 2018. 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 2019:

Financial assets	Fair value at 31 December		Fair value Hierarchy	Valuation technique(s) and key input(s) and sensitivity
	2019	2018		
	HK'000	HK'000		
Financial assets at fair value through profit or loss	9,069	13,777	Level 1	Quoted bid prices in active market
	181	218	Level 3	Market approach Key Inputs: Discount rate of 17.1% (2018: 95.0%) The discount rate is negatively correlated to the fair value measurement of suspended trading security and comparable listed companies.

34. 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
Loss on fair value change on financial assets at fair value through profit or loss	(37)
At 31 December 2019	181

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 2019 and 2018.

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 2019, the Group's current ratio was 2.1 (2018: 3.2).

35. 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	**Lease labilities/ Obligations under finance lease**	**Total**
	HK$	HK$	HK$
	(note 24)	*(note 25)*	
At 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
At 31 December 2018 and 1 January 2019	14,500	6,262	20,762
Accrued interest	41	1,185	1,226
Interest paid	(41)	(1,185)	(1,226)
Additions to lease liabilities	–	32,342	32,342
Financing cash outflows	(14,500)	(20,839)	(35,339)
At 31 December 2019	–	17,765	17,765

36. 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:

	2019	2018
	HK$'000	HK$'000
Non-current assets		
Property, plant and equipment	–	6
Investments in subsidiaries	43,700	43,700
Total non-current assets	43,700	43,706
Current assets		
Prepayments, deposits and other receivables	114	114
Due from subsidiaries	26,762	25,069
Cash and cash equivalents	90	194
Total current assets	26,966	25,377
Current liabilities		
Due to subsidiaries	28,724	24,197
Accrued liabilities and other payables	1,279	1,579
Total current liabilities	30,003	25,776
Net current liabilities	(3,037)	(399)
Net assets	40,663	43,307
Equity		
Issued capital	8,136	8,136
Reserves	32,527	35,171
Total equity attributable to owners of the Company	40,663	43,307

Approved and authorised for issue by the board of directors on 26 March 2020 and signed on its behalf by:

Hu Bo
Director

Cao Huijuan
Director

36. 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 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 and 1 January 2019	218,508	555,000	10,047	(748,384)	35,171
Loss for the year and total comprehensive loss for the year	–	–	–	(7,039)	(7,039)
Transfer of share option reserve upon the lapse of share options	–	–	(3,662)	3,662	–
Share based payment expenses	–	–	4,395	–	4,395
At 31 December 2019	218,508	555,000	10,780	(751,761)	32,527

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.

37. EVENTS AFTER THE REPORTING PERIOD

On 24 March 2020, the Company completed the consolidation of shares in the issued shares of the Company whereby every four issued and unissued ordinary shares of HK$0.01 each are consolidated into one consolidated ordinary share of HK$0.04 each (the "Share Consolidation").

Since January 2020, the outbreak on Novel Coronavirus ("COVID-19") has impacted the global business environment. Up to the date of these consolidated financial statements, COVID-19 cause significant decrease in the Group's revenue. Pending the development and spread of COVID-19 subsequent to the date of the consolidated financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

38. NON-CASH TRANSACTION

During the year ended 31 December 2019, the equity-settled share-based payment were approximately HK$4,395,000.

39. COMPARATIVE FIGURES

Comparative figures have been adjusted on the assumption that the share consolidation had been effective in the prior period.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 March 2020.

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				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	231,616	264,293	318,619	318,802	399,679
Cost of sales	(183,821)	(212,654)	(253,645)	(252,154)	(308,007)
Gross profit	47,795	51,639	64,974	66,648	91,672
Other (loss)/income and gains, net	(1,880)	(8,387)	(21,687)	(628)	16,044
Impairment loss on intangible asset	(2,508)	–	–	–	–
Selling expenses	(33,228)	(47,574)	(67,508)	(69,788)	(94,216)
Administrative and other operating expenses	(32,911)	(36,656)	(56,127)	(70,098)	(60,858)
Finance costs	(1,226)	(361)	(944)	(206)	(428)
LOSS BEFORE TAX	(23,958)	(41,339)	(81,292)	(74,072)	(47,786)
Income tax income/(expense)	9	1,379	(144)	287	(849)
LOSS FOR THE YEAR	(23,949)	(39,960)	(81,436)	(73,785)	(48,635)
Attributable to:					
Owners of the Company	(23,491)	(40,012)	(80,784)	(72,820)	(48,242)
Non-controlling interests	(458)	52	(652)	(965)	(393)
	(23,949)	(39,960)	(81,436)	(73,785)	(48,635)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	101,972	114,698	150,150	291,470	254,459
TOTAL LIABILITIES	(41,230)	(34,394)	(30,280)	(28,969)	(27,047)
NON-CONTROLLING INTERESTS	701	243	295	(2,799)	(3,901)
	61,443	80,547	120,165	259,702	223,511

Note:

The consolidated results of the Group for each of the two years ended 31 December 2019 and 2018 and the consolidated assets and liabilities of the Group as at 31 December 2019 and 2018 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.

年報

ANNUAL REPORT

2019

米蘭站控股有限公司

MILAN STATION HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Stock Code: 1150

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