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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Li Wei (*Chairlady*) (Appointed on 15 September 2017)

Wu David Hang (Resigned on 15 September 2017)

Hou Jian (Resigned on 15 September 2017)

Non-executive Director

Lui Kwok Wai (Appointed on 28 February 2017 and resigned on 16 March 2018)

Independent Non-executive Directors

Cheng Shing Hay (Appointed on 15 September 2017)

Yau Pak Yue (Appointed on 18 September 2017)

Wong Kon Man Jason (Appointed on 4 October 2017)

Shen Xiao (Appointed on 18 October 2017)

Wong Yik Chung John

(Resigned on 20 September 2017)

Ernst Rudolf Zimmermann

(Resigned on 18 September 2017)

Ng Man Fai Matthew (Resigned on 13 October 2017)

COMPANY SECRETARY

Chan Tsang Mo (Appointed on 28 February 2018)

Chu Kin Ming (Resigned on 28 February 2018)

AUDIT COMMITTEE

Yau Pak Yue (*Committee Chairman*)

(Appointed on 18 September 2017)

Cheng Shing Hay (Appointed on 15 September 2017)

Wong Kon Man Jason (Appointed on 4 October 2017)

Shen Xiao (Appointed on 18 October 2017)

Ng Man Fai Matthew (*Committee Chairman*)

(Resigned on 13 October 2017)

Wong Yik Chung John

(Resigned on 20 September 2017)

Ernst Rudolf Zimmermann

(Resigned on 18 September 2017)

NOMINATION COMMITTEE

Cheng Shing Hay (*Committee Chairman*)

(Appointed on 15 September 2017)

Li Wei (Appointed on 15 September 2017)

Yau Pak Yue (Appointed on 18 September 2017)

Wong Kon Man Jason (Appointed on 4 October 2017)

Shen Xiao (Appointed on 18 October 2017)

Wong Yik Chung John (*Committee Chairman*)

(Resigned on 20 September 2017)

Ernst Rudolf Zimmermann

(Resigned on 18 September 2017)

Ng Man Fai Matthew (Resigned on 13 October 2017)

Wu David Hang (Resigned on 15 September 2017)

REMUNERATION COMMITTEE

Yau Pak Yue (*Committee Chairman*)

(Appointed on 18 September 2017)

Li Wei (Appointed on 15 September 2017)

Cheng Shing Hay (Appointed on 15 September 2017)

Wong Kon Man Jason (Appointed on 4 October 2017)

Shen Xiao (Appointed on 18 October 2017)

Wu David Hang (*Committee Chairman*)

(Resigned on 15 September 2017)

Wong Yik Chung John (Resigned on 20 September 2017)

Ernst Rudolf Zimmermann

(Resigned on 18 September 2017)

Ng Man Fai Matthew (Resigned on 13 October 2017)

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 510, Chater House,
8 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co. Ltd. Hong Kong Branch
Nanyang Commercial Bank Limited
OCBC Wing Hang Bank Limited
Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
China Merchants Bank Hong Kong Branch

AUDITOR

BDO Limited
Certified Public Accountants

LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

LEGAL ADVISER ON HONG KONG LAW

Herbert Smith Freehills

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

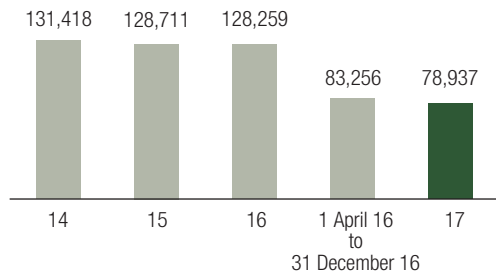
www.irasia.com/listco/hk/ascent/index.htm

STOCK CODE

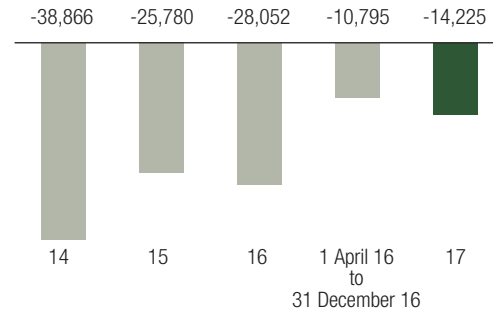
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FINANCIAL HIGHLIGHTS

TURNOVER (HK\$'000)

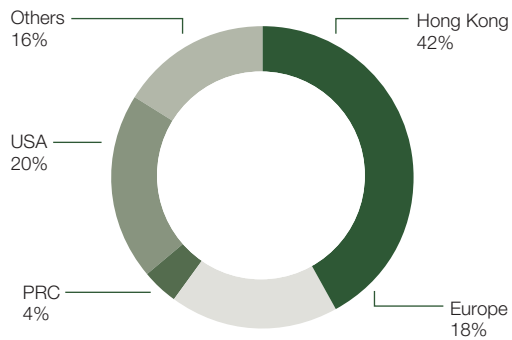


NET LOSS (HK\$'000)

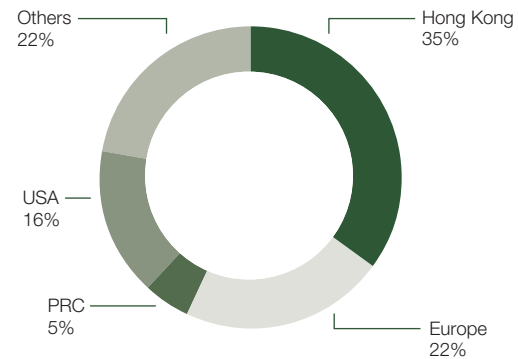


TURNOVER BY GEOGRAPHICAL SEGMENT

Financial Year 2017

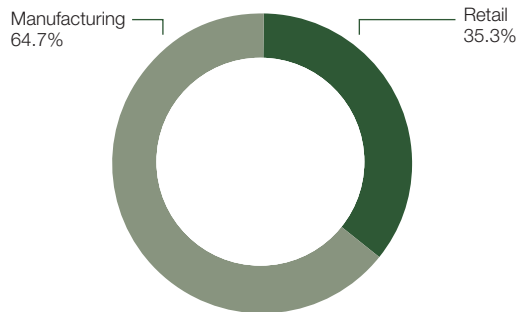


Period from 1 April 2016 to 31 December 2016

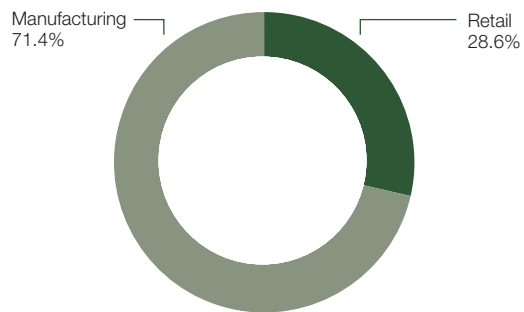


TURNOVER BY BUSINESS SEGMENT

Financial Year 2017



Period from 1 April 2016 to 31 December 2016



FINANCIAL HIGHLIGHTS

	Year ended 31 December 2017 HK\$'000	Period from 1 April 2016 to 31 December 2016 HK\$'000
Operating results		
Revenue	78,937	83,256
Gross profit	34,979	29,253
Loss before income tax expense	(16,676)	(10,708)
Loss for the year/period	(14,225)	(10,795)
Business performance ratios		
Gross profit margin	44.31%	35.14%
Net profit margin	N/A	N/A
Return on shareholders' equity	N/A	N/A
Current ratio	3.28	2.60
Quick ratio	2.20	1.38
Share data (as at year end date)		
Shares in issue ('000)	382,704	347,904
Shares closing price	HK\$0.85	HK\$1.20
Market capitalization (HK\$'000)	325,298	417,485
Basic loss per share	(HK4.05 cents)	(HK3.10 cents)
Interim dividend per share	Nil	Nil
Final dividend per share	Nil	Nil
Net asset value per share	HK\$0.16	HK\$0.15
Price-to-book value ratio	5.31	8

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Ascent International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual report of the Company for the year ended 31 December 2017.

FINANCIAL PERFORMANCE

The financial year end date of the Company has been changed from 31 March to 31 December starting from the financial year 2016 in order to align the Company's financial year end date with its principal operating subsidiaries in the People's Republic of China (the "PRC") thereby streamlining the preparation of the Company's financial reporting process. Therefore, the last financial period covers a period of nine months from 1 April 2016 to 31 December 2016 which may not be entirely comparable with current year results which cover a period of twelve months.

The Group has recorded a revenue of HK\$78,937,000 for the year ended 31 December 2017 (the nine months ended 31 December 2016: HK\$83,256,000), representing a decrease of 5.2% or approximately HK\$4,319,000 as compared with the previous reporting period. Revenue contributed from manufacturing and retail business segments (excluding inter-segment revenue) was approximately HK\$51,049,000 and HK\$27,888,000, respectively. Gross profit was approximately HK\$34,979,000. There was a significant increase of gross profit margin from approximately 35.1% to approximately 44.3%. The reasons for the increase in gross profit were mainly due to lower costs attributable to labour wages with respect to factory workers in the PRC as there was a decrease in the number of factory workers and lower factory rental costs.

Other income and gains amounted to approximately HK\$335,000, up from HK\$281,000 in last reporting period. The increase was primarily due to the gain on disposal of a motor vehicle.

Selling and distribution costs increased by approximately HK\$1,982,000 to HK\$22,936,000 for the year ended 31 December 2017 (the nine months ended 31 December 2016: HK\$20,954,000). The increase was mainly attributable to the longer reporting period. Administrative and other operating expenses increased by approximately HK\$9,766,000. The increase was mainly due to significant increase in staff salary expenses.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK\$14,225,000 for the year ended 31 December 2017 (the nine months ended 31 December 2016: HK\$10,795,000). Loss per share for the year ended 31 December 2017 was HK4.05 cents (31 December 2016: HK3.10 cents).

BUSINESS REVIEW

During the year ended 31 December 2017, the manufacturing and retail business segments accounted for 64.7% (for the nine months ended 31 December 2016: 71.4%) and 35.3% (for the nine months ended 31 December 2016: 28.6%) of the Group's total revenue, respectively.

Manufacturing business

For the year ended 31 December 2017, the revenue of manufacturing business segment from external customers was approximately HK\$51,049,000, in comparison with HK\$59,477,000 in the last reporting period.

CHAIRMAN'S STATEMENT

Geographically, sales to Europe decreased by approximately 18.7% from approximately HK\$17,855,000 for the period ended 31 December 2016 to approximately HK\$14,513,000 for the year ended 31 December 2017. Sales to Hong Kong reduced by approximately 9.6% from approximately HK\$5,517,000 for the period ended 31 December 2016 to approximately HK\$4,988,000 for the year ended 31 December 2017. Sales to the US increased by approximately 17.4% from approximately HK\$13,288,000 for the last reporting period to approximately HK\$15,594,000. Sales in PRC market reduced by approximately 34.4% from approximately HK\$4,363,000 for the period ended 31 December 2016 to approximately HK\$2,864,000 for the year ended 31 December 2017. Apart from these major markets, sales to other countries such as Japan, Australia, Canada, India etc. decreased from approximately HK\$18,454,000 for the period ended 31 December 2016 to approximately HK\$13,090,000 for the year ended 31 December 2017.

In respect of product category, sales of belts decreased by approximately HK\$4,855,000 to approximately HK\$42,396,000 (period ended 31 December 2016: approximately HK\$47,251,000), representing a decrease of 10.3%. The sales of leather goods and other accessories reduced by approximately HK\$3,573,000 to approximately HK\$8,653,000, (period ended 31 December 2016: approximately HK\$12,226,000). In the reporting year, the Group strived to economise on expenditure and reduce the inventory level of raw materials, particularly, to consume the slow-moving inventory of cowhide leathers. However, the Group's manufacturing business segment still recorded an increase of operating loss of approximately HK\$2,716,000 from HK\$48,000 for the period ended 31 December 2016 to HK\$2,764,000 for the year ended 31 December 2017.

Retail Business

For retail business, due to the adverse retail environment, and keen competition from rivals and online sales, the Group recorded a revenue of HK\$27,888,000 for the year ended 31 December 2017 (period ended 31 December 2016: HK\$23,779,000) which represented a 17.3% rise in comparison with the previous period. Sales of the Group's in-house brand "Urban Stranger" comprised 88.5% of the period's retail sales, which was 0.9% higher than that of the previous reporting period (period ended 31 December 2016: 87.6%). Gross profit margin of this year remained high at 70.4%, similar to the previous period's margin.

The overall shop rental to revenue ratio decreased from 43.1% for the nine months ended 31 December 2016 to 40.4% for the year ended 31 December 2017. The staff cost to revenue ratio also decreased from 25.1% to 23.4%.

The retail business segment resulted in a loss of HK\$3,059,000 for the year ended 31 December 2017 as compared to approximately HK\$3,340,000 for the nine months ended 31 December 2016. The Group maintained eight AREA 0264 stores (31 December 2016: eight) and one Teepee Leather workshop (31 December 2016: one) in Hong Kong.

PROSPECTS

The economic activities around the world continue to pick up in 2018 with notable improvements in Asia and Europe. Looking forward to 2018, the Group expects a mild increase in its turnover. The Group will strengthen its competitiveness by maintaining the quality of its products and flexibly catering to the needs of its customers. Also, the Group will streamline its operation and re-examine the use of its resources prudently.

For local retail market, a mild increase is expected in 2018. However, retail shop rental remains one of the Group's largest expenses and rental increase is expected to be an impediment to the growth of the Group. In 2018, the lease terms of several retail shops will end, the Group will negotiate for the most favourable terms and/or consider whether to terminate the leases.

CHAIRMAN'S STATEMENT

In view of the continuous loss-making of the manufacturing and retail segments, the Group is exploring different business opportunities in Hong Kong and the PRC. On 23 January 2018, the Group has subscribed for shares in Eastation Gallery (HK) Limited, a joint venture company which specialises in consultation and trading of artworks and the operating of an art gallery in Hong Kong. The new management of the Group is making strenuous efforts towards the goal of seeking more viable and sustainable business opportunities in order to add value to the shareholders.

APPRECIATION

On behalf of the Board, I would like to express my heartfelt gratitude to the management team and all our staff for their hard work, commitment, dedication and contribution, and all of our shareholders, valuable customers and banks for their ongoing support.

LI WEI

Chairlady

Hong Kong, 29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017 the Group's cash and bank deposits were approximately HK\$44,507,000 as compared to approximately HK\$21,475,000 as at 31 December 2016.

The Group recorded total current assets of approximately HK\$85,751,000 (31 December 2016: approximately HK\$75,512,000) and total current liabilities of approximately HK\$26,113,000 (31 December 2016: approximately HK\$29,076,000). The increase of total current assets was mainly due to the increase in cash and bank deposits. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 3.3 times as at 31 December 2017 (31 December 2016: 2.6 times).

On 8 November 2017, the Company entered into a subscription agreement with Mr. Fang Cheng Yu (the "Subscriber"), pursuant to which the Company has agreed to issue and the Subscriber has agreed to subscribe for 34,800,000 new ordinary shares of HK\$0.01 each in the capital of the Company at a subscription price of HK\$0.705 per share, a discount of approximately 19.89% of the closing price of HK\$0.88 per share as quoted on the Stock Exchange on 8 November 2017. The net proceeds from the subscription of approximately HK\$24,300,000, after deduction of related expenses are intended to be used for working capital and for financing any potential investment opportunities. On 23 November 2017, the subscription was completed.

The Group recorded shareholders' funds of approximately HK\$61,526,000 (31 December 2016: approximately HK\$50,659,000). The increase was mainly attributable to placing of new shares on 23 November 2017.

TREASURY POLICY

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars ("HK\$"), US dollars ("USD") and Renminbi ("RMB"). Transactions of the Group are mainly denominated in HK\$, USD and RMB. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD. In addition, it is estimated that the Group's exposure to foreign exchange fluctuation in RMB against HK\$ would have insignificant effects on profit or loss and other component of equity of the Group. Foreign exchange forward contract can be used to eliminate the currency risk exposure. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

DIVIDEND

The Board does not recommend any payment of final dividends for the year ended 31 December 2017.

CHARGES ON ASSETS

The Group did not have any assets pledged for general facilities granted by banks.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL

On 4 September 2017, the Company entered into the disposal agreement with Ocean Sound Enterprises Limited (a wholly-owned company of Zhonghong Holding Co., Limited which indirectly owns 229,948,000 shares in the Company, representing approximately 60.1% of the issued share capital of the Company as at the date of this Annual Report), pursuant to which the Company agreed to sell the entire issued share capital of Leisure State Limited at the consideration of HK\$1.00 to Ocean Sound Enterprises Limited (the "Disposal"). After the Disposal, the Company is no longer engaged in provision of property management services.

Apart from the above transaction, the Group had no material acquisition or disposal for the year ended 31 December 2017.

HUMAN RESOURCES

As at 31 December 2017, the Group had approximately 54 employees in Hong Kong and approximately 196 workers in the PRC. The Group remunerated its employees mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company. The share option scheme had expired on 17 February 2013.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2016 and 31 December 2017.

GEARING RATIO

As at 31 December 2017, the gearing ratio of the Group was 20.8% (31 December 2016: 19.5%), representing the sum of amounts due to a director, fellow subsidiaries and an intermediate holding company divided by total equity.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Ms. Li Wei, aged 41, has been appointed as an executive Director, chairlady of the Board and authorised representative of the Company on 15 September 2017. She is currently the chief risk and operating officer of KEE Holdings Company Limited (Stock Code: 2011) (“KEE”), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). KEE and the Company are 70.16% and 60.09%-owned by Zhonghong Holdings Co., Limited, respectively. Ms. Li was the executive director, chief operating officer, compliance officer and the authorised representative of Capital Finance Holdings Limited (Stock Code: 8239), a company whose issued shares are listed on the Growth Enterprise Market of the Stock Exchange until her resignation on 1 October 2017. Ms. Li obtained a bachelor’s degree in enterprise management from Tianjin Normal University in the PRC and a master’s degree in management from Tianjin University in the PRC. Ms. Li has more than 16 years of experience in management gained from several multinational corporations and a well-known Chinese based consultancy corporation and in operational and risk management in the financial sector.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yau Pak Yue, aged 49, was appointed as independent non-executive director of the Company on 18 September 2017. Mr. Yau obtained his bachelor of commerce (majoring in accountancy) from the University of Wollongong in Australia. He was the chief knowledge officer of Guangzhou Chengfa Capital Company Limited, a state-owned fund management company, from May 2015 to January 2017. Prior to that, he was the chief executive officer of Taiyang International Cold Chain (Group) Limited from March 2014 to July 2014, and a partner at Deloitte & Touche Financial Advisory Services Limited from June 2005 to November 2012. He has over 20 years of experience in mergers and acquisitions transaction supports and financial due diligence. Mr. Yau is also a certified public accountant in Hong Kong and a certified practising accountant in Australia. Mr. Yau is currently an independent non-executive director of KEE. KEE and the Company are 70.16% and 60.09%-owned by Zhonghong Holdings Co., Limited respectively.

Mr. Cheng Shing Hay, aged 39, was appointed as independent non-executive director of the Company on 15 September 2017. Mr. Cheng obtained a graduate diploma in commerce from the University of Auckland in May 2001 and a bachelor’s degree in commerce from the University of Auckland in May 2000. Mr. Cheng is a non-practising member of the Hong Kong Institute of Certified Public Accountants and chartered accountant of the Chartered Accountants Australia and New Zealand. He has extensive experience in finance, accounting and auditing field. Mr. Cheng had worked in various positions of the audit department in Deloitte Touche Tohmatsu from August 2007 to October 2011. Mr. Cheng was (i) the chief financial officer of a PRC based internet company from October 2011 to November 2012, (ii) the financial controller and later the joint chief financial officer of China Dredging Environment Protection Holdings Limited (Stock Code: 871), a company which issued shares are listed on the Main Board of the Stock Exchange, from December 2012 to November 2013, (iii) the chief financial officer and company secretary of China New City Commercial Development Limited (Stock Code: 1321), a company which issued shares are listed on the Main Board of the Stock Exchange, from January 2014 to January 2015. Mr. Cheng has also been appointed as the chief financial officer and company secretary of Dongguang Chemical Limited (Stock Code: 1702), a company which issued shares are listed on the Main Board of the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong Kon Man Jason, aged 53, was appointed as independent non-executive director of the Company on 4 October 2017. Mr. Wong graduated from the University of Hawaii at Manoa in the United States with a bachelor's degree in business administration (majoring in accountancy) in 1988. He has over 25 years of experience in finance and investment. He was a financial consultant for Transpac Capital Ltd from 1993 to 2000. He has been the managing director of Fortune Capital Group Limited since 2000. He is also one of the founding members and an investment committee member of Whiz Partners Asia Ltd. He is a member of American Institute of Certified Public Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Wong was an independent non-executive director and the chairman of the audit committee of China Lending Corporation Ltd. (Nasdaq: CLDC) from 2016 to 2017, an independent non-executive director and the chairman of the audit committee of DT Asia Investments Ltd. (Nasdaq: CADTU) from 2014 to 2016, an independent non-executive director of Group Sense (International) Limited (Stock Code: 601) from 2004 to 2015 and an independent non-executive director of Neo-Neon Holdings Limited (Stock Code: 1868) from 2011 to 2014.

Mr. Shen Xiao, aged 39, was appointed as independent non-executive director of the Company on 18 October 2017. Mr. Shen obtained his master's degree and bachelor's degree in management (accounting) from Tsinghua University in the PRC. Mr. Shen had 15 years of working experience in the investment banking sector with BOC International Holdings Limited, Credit Lyonnais Securities (Asia) Limited (CLSA) and J.P. Morgan Securities (Far East) Limited, at which he was responsible for handling corporate finance matters and cross-border merger and acquisitions transactions for the companies in the PRC. He is a fellow member of the Association of Certified General Accountant of Canada and a fellow member of Chartered Financial Analyst Institute. He is currently an executive director and president of TUS International Limited (Stock Code: 872), a company listed on the Stock Exchange.

SENIOR MANAGEMENT

Mr. Chan King Hong Edwin, aged 59, is a former executive Director of the Company, and is currently the chief executive officer of the leather goods manufacturing and retail division of Company who found the Group in around 1980. Mr. Chan is responsible for the development of corporate strategies, overseas sales and marketing strategic planning and overall management of the leather goods manufacturing and retail division of the Group. He has over 30 years of experience in the manufacturing and sales of leather goods, corporate management and strategic planning. Mr. Chan graduated from the University of Toronto in Canada with a bachelor's degree in arts in 1980.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is important to the success of the Company. The Company is committed to attaining good standard of corporate governance practices in order to enhance shareholders' value and safeguard the interests of shareholders.

The Company's corporate governance practices are based on the principles and code provisions (the "Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has complied with the Code Provisions as set out in the CG Code during the year ended 31 December 2017 except for the deviations from the Code Provisions, A.2.1 and C.2.5 in respect of the separation of roles of the chairman of the Board (the "Chairman") and chief executive of the Company (the "Chief Executive Officer") and the provision that the Group should have an internal audit function. Further details are disclosed in this report.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the year ended 31 December 2017.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic directions and financial performance. The management was delegated authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to Remuneration Committee, Audit Committee and Nomination Committee.

The Board currently consists of 1 executive Director, and 4 independent non-executive Directors. Their brief biographical details are set out in the section headed "Biographical details of Directors and senior management" on pages 11 to 12 of this Annual Report. There is no relationship, including financial, business, family or other material/relevant relationships among the Board members.

The Board holds four regular meetings a year to review the financial and operating performance of the Company. Apart from the regular Board meetings, the Board will meet on other occasion when required.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2017, 11 Board meetings were held by the Company. The individual attendance record of each Director at the meetings of the Board and annual general meeting of the Company during the year ended 31 December 2017 is as follows:

	Number of Board meetings attended/ eligible to attend	Annual general meeting held on 19 May 2017 attended
Executive Directors		
Ms. Li Wei (<i>Chairlady</i>) (Appointed on 15 September 2017)	5/5	N/A
Mr. Wu David Hang (Resigned on 15 September 2017)	5/5	1/1
Mr. Hou Jian (Resigned on 15 September 2017)	4/5	1/1
Non-Executive Director		
Mr. Lui Kwok Wai (Appointed on 28 February 2017 and resigned on 16 March 2018)	9/11	1/1
Independent Non-executive Directors		
Mr. Cheng Shing Hay (Appointed on 15 September 2017)	6/6	N/A
Mr. Yau Pak Yue (Appointed on 18 September 2017)	5/5	N/A
Mr. Wong Kon Man Jason (Appointed on 4 October 2017)	3/3	N/A
Mr. Shen Xiao (Appointed on 18 October 2017)	2/2	N/A
Mr. Wong Yik Chung John (Resigned on 20 September 2017)	4/6	1/1
Mr. Ernst Rudolf Zimmermann (Resigned on 18 September 2017)	4/5	1/1
Mr. Ng Man Fai Matthew (Resigned on 13 October 2017)	8/8	1/1

All current independent non-executive Directors are appointed for a specific term of three years and are also subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Company's articles of associations (the "Articles").

The Company has received from each of the independent non-executive Directors an annual written confirmation of his independence as required under rule 3.13 of the Listing Rules. The Company, based on such confirmations, considers all independent non-executive Directors are independent.

DIRECTORS' INSURANCE COVER OF LEGAL ACTION

Under the Code Provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. During the year ended 31 December 2017, the Company arranged appropriate insurance cover for Directors' and officers' liabilities.

CORPORATE GOVERNANCE REPORT

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors, including independent non-executive Directors, should keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and update all Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and to enhance their awareness of good corporate governance practices.

During the year ended 31 December 2017, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Name of Directors	Attended Seminars or Briefing/ Read Materials
Executive Directors	
Ms. Li Wei (<i>Chairlady</i>) (Appointed on 15 September 2017)	✓
Mr. Wu David Hang (Resigned on 15 September 2017)	✓
Mr. Hou Jian (Resigned on 15 September 2017)	✓
Non-Executive Director	
Mr. Lui Kwok Wai (Appointed on 28 February 2017 and resigned on 16 March 2018)	✓
Independent Non-executive Directors	
Mr. Cheng Shing Hay (Appointed on 15 September 2017)	✓
Mr. Yau Pak Yue (Appointed on 18 September 2017)	✓
Mr. Wong Kon Man Jason (Appointed on 4 October 2017)	✓
Mr. Shen Xiao (Appointed on 18 October 2017)	✓
Mr. Wong Yik Chung John (Resigned on 20 September 2017)	✓
Mr. Ernst Rudolf Zimmermann (Resigned on 18 September 2017)	✓
Mr. Ng Man Fai Matthew (Resigned on 13 October 2017)	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. For the year ended 31 December 2017, the roles of the Chairman and Chief Executive Officer had been performed by Mr. Wu David Hang from 1 January 2017 to 15 September 2017. The Board is of the view that given the small size of the existing management team, Mr. Wu David Hang has considerable experience in business development and the Board believes that the current structure will enable the Company to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of the Group. Following Mr. Wu's resignation as Chairman and Chief Executive Officer, Ms. Li Wei is appointed as the chairlady of the Board, and the duties of the chief executive officer is performed by the existing management of the Group. The Group is looking for suitable candidate to fill the vacancy of the Chief Executive Officer.

OTHER COMMITTEES

There are three committees established under the Board, namely Audit Committee, Remuneration Committee and Nomination Committee.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee currently comprises four independent non-executive Directors, namely Mr. Yau Pak Yue, Mr. Cheng Shing Hay, Mr. Wong Kon Man Jason and Mr. Shen Xiao. On 30 November 2015, the Board adopted a set of the revised terms of reference of the Audit Committee in line with the Listing Rules requirement in relation to the internal control by introducing the concept of the risk management. The revised term of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

During the year ended 31 December 2017, 2 audit committee meetings were held by the Company. Individual attendance of each committee member at the meetings is as follows:

	Number of meeting attended/ eligible to attend
Independent Non-executive Directors	
Mr. Yau Pak Yue (<i>Committee Chairman</i>) (Appointed on 18 September 2017)	N/A
Mr. Cheng Shing Hay (Appointed on 15 September 2017)	N/A
Mr. Wong Kon Man, Jason (Appointed on 4 October 2017)	N/A
Mr. Shen Xiao (Appointed on 18 October 2017)	N/A
Mr. Ng Man Fai Matthew (Resigned on 13 October 2017)	2/2
Mr. Wong Yik Chung John (Resigned on 20 September 2017)	2/2
Mr. Ernst Rudolf Zimmermann (Resigned on 18 September 2017)	2/2

The major roles and functions of the Audit Committee are as follows:

- to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to review and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;
- to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

CORPORATE GOVERNANCE REPORT

- to monitor the integrity of the Company's financial statements and the annual report and accounts and half-year report and, if prepare for publication, quarterly reports and to review significant financial reporting judgments contained in them. In reviewing these reports and accounts of the Company before submission to the Board, the Audit Committee shall focus particularly on:
 - any changes in financial reporting and accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from audit;
 - the going concern assumptions and any qualifications;
 - compliance with accounting standards; and
 - compliance with the Listing Rules, the Applicable Rules and legal requirements in relation to financial reporting.
- to liaise with the Board and senior management and meet at least twice a year, with external auditor, and to consider any significant or unusual items that are, or may need to be, reflected in the annual report and accounts and half-year report, and to give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditor of the Company;
- to review the financial controls, internal control and risk management systems of the Company;
- to discuss the risk management and internal control systems with management of the Company to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;
- to review the group's financial and accounting policies and practices;
- to review the management letter of the external auditor, any material queries raised by the auditor to management of the Company about the accounting records, financial accounts or systems of control and the response of management of the Company;
- to ensure that the Board will provide a timely response to the issues raised in the management letter of the external auditor;
- to review arrangements for employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- to act as the key representative body for overseeing the Company's relations with external auditor.

During the year under review, the Audit Committee has reviewed with the Group's management the principles and practices adopted by the Group, discussed internal control, risk management and financial reporting matters, including a review of the unaudited financial statements and results of the Group for the six months ended 30 June 2017 and audited financial statements and results of the Group for the year ended 31 December 2016.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the fees paid/payable to the Group's auditor, BDO Limited, are set out as follows:

Nature of services	Amount HK\$'000
Audit Services	800
Non-audit services	101
Total:	901

The non-audit services were related to agreed-upon procedures on certain financial information.

REMUNERATION COMMITTEE

The Remuneration Committee comprises four independent non-executive Directors, namely Mr. Yau Pak Yue, Mr. Cheng Shing Hay, Mr. Wong Kon Man Jason and Mr. Shen Xiao and one executive Director, namely Ms. Li Wei. The term of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

The Remuneration Committee meets at least once a year and the Remuneration Committee will meet on other occasion when required.

The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual executive Directors and senior management.

During the year ended 31 December 2017, 5 remuneration committee meetings were held to review and determine the annual remuneration packages of the Directors. Individual attendance of each committee members at the meetings is as follows:

	Number of meetings attended/ eligible to attend
Independent Non-executive Directors	
Mr. Yau Pak Yue (<i>Committee Chairman</i>) (Appointed on 18 September 2017)	4/4
Mr. Cheng Shing Hay (Appointed on 15 September 2017)	5/5
Mr. Wong Kon Man, Jason (Appointed on 4 October 2017)	2/2
Mr. Shen Xiao (Appointed on 18 October 2017)	1/1
Mr. Wong Yik Chung John (Resigned on 20 September 2017)	2/2
Mr. Ng Man Fai Matthew (Resigned on 13 October 2017)	5/5
Mr. Ernst Rudolf Zimmermann (Resigned on 18 September 2017)	2/2
Executive Director	
Ms. Li Wei (Appointed on 15 September 2017)	4/4
Mr. Wu David Hang (Resigned on 15 September 2017)	2/2

CORPORATE GOVERNANCE REPORT

The major roles and functions of the Remuneration Committee are as follows:

- to make recommendations to the board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- to review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The remuneration package should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- to make recommendations to the Board on the remuneration of non-executive Directors;
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;
- to review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- to ensure that no Director or any of his associates is involved in deciding his own remuneration.

NOMINATION COMMITTEE

The Nomination Committee comprises four independent non-executive Directors, namely Mr. Cheng Shing Hay, Mr. Yau Pak Yue, Mr. Wong Kon Man Jason and Mr. Shen Xiao and one executive Director, namely Ms. Li Wei. On 30 September 2013, the Board adopted a set of the revised terms of reference of the Nomination Committee in line with the Listing Rules requirement in relation to board diversity effective from 1 September 2013. The revised term of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

The Nomination Committee meets at least once a year and the Nomination Committee will meet on other occasion when required.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2017, 5 nomination committee meetings were held to recommend the re-appointment of the Directors standing for re-election at the annual general meeting of the Company, to assess the independence of the independent non-executive Directors and to review and assess the Board Diversity Policy to ensure its effectiveness and considered that the Group has achieved the effectiveness of the Board Diversity Policy during the year ended 31 December 2017. Individual attendance of each committee member at the meetings is as follows:

	Number of meeting attended/ eligible to attend
Independent Non-executive Directors	
Mr. Yau Pak Yue (Appointed on 18 September 2017)	4/4
Mr. Cheng Shing Hay (Appointed on 15 September 2017)	5/5
Mr. Wong Kon Man Jason (Appointed on 4 October 2017)	2/2
Mr. Shen Xiao (Appointed on 18 October 2017)	1/1
Mr. Wong Yik Chung John (Resigned on 20 September 2017)	2/2
Mr. Ng Man Fai Matthew (Resigned on 13 October 2017)	5/5
Mr. Ernst Rudolf Zimmermann (Resigned on 18 September 2017)	2/2
Executive Director	
Ms. Li Wei (Appointed on 15 September 2017)	4/4
Mr. Wu David Hang (Resigned on 15 September 2017)	2/2

The major roles and functions of the Nomination Committee are as follows:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- to assess the independence of independent non-executive Directors; and
- to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors, in particular, the Chairman and the Chief Executive Officer.

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, including the independence status in the case of an independent non-executive Director, the Company's needs and other relevant statutory requirements and regulations. During the year under review, 5 new Directors were recommended by the Nomination Committee and were appointed by the Board. All of the newly appointed Directors were selected via the selection process described above.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Company has adopted a board diversity policy (the "Board Diversity Policy") on 30 September 2013 setting out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. A summary of Board Diversity Policy, together with the measurable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, experience, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

Monitoring and Reporting

The Nomination Committee will disclose the composition of the Board annually in the Corporate Governance Report and monitor the implementation of the Board Diversity Policy. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises five Directors. Four of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterized by significant diversity, whether considered in terms of age, experience, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

CORPORATE GOVERNANCE FUNCTION

All members of the Board are responsible for performing the corporate governance functions. The terms of reference of corporate governance functions was adopted by the Board at the Board meeting held on 21 March 2012 and is in compliance with paragraph D.3.1 of the CG Code. During the year ended 31 December 2017, the Board has discussed the corporate governance matters including a review of the corporate governance report for the year ended 31 December 2017.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure those financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors have also ensured the timely publication of the financial statements of the Group.

The Directors' responsibilities in preparing financial statements and auditor's responsibilities are set out in the Independent Auditor's Report on pages 44 to 48 of this Annual Report.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for maintaining an effective system of internal control to safeguard shareholders' investment and the Company's assets. The internal control system is designed to provide reasonable assurance on the effectiveness and efficiency of operations, to safeguard assets against unauthorised use or disposition and to maintain proper accounting records for producing reliable financial information. The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Under Code Provision C.2.5 of the CG Code, the Group should have an internal audit function. The Group has reviewed the need for an internal audit department annually. Given the Group's simple operating structure, the management is of the opinion that instead of setting up an internal audit department, it would be more cost effective to engage an independent professional third party to review the Group's internal control measures and report to the Audit Committee members. The review covered the adequacy of resources, staff qualifications and experience, training programs, budget, internal audit, financial reporting functions and Listing Rules compliance. Major risk factors and recommendations were presented to the Audit Committee members for their consideration.

In order to maintain a high standard of corporate governance, the Company engaged an independent external consultant with professional staff in possession of relevant expertise to conduct an independent review of the risk management and internal control systems of the Company during the year. The report has been reviewed and approved by the Board and the Audit Committee. Appropriate actions have been implemented accordingly to enhance the risk management and internal control systems.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- Confidentiality covenants will be in place when the Group enters into significant negotiations. In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, is likely to be in possession of inside information in relation to the Company, are required to comply with the Model Code.

The Board has conducted a review of the effectiveness of the internal control systems of the Group for the year ended 31 December 2017. The Board considers that the existing risk management and internal control systems of the Group are in place and effective.

CORPORATE GOVERNANCE REPORT

CORPORATE COMMUNICATION

The Company endeavours to maintain good investor relationship with shareholders and potential investors by way of annual general meeting, publication of interim and annual reports on the websites of the Company and the Stock Exchange, and timely press releases on the Company's website. A Shareholder's Communication Policy was adopted by the Board on 21 March 2012 aiming at providing the shareholders and potential investors with ready and timely access to balanced and understandable information of the Company.

Shareholders are encouraged to attend the annual general meetings for which a notice would be served properly. The Chairman and/or Directors are available to answer questions on the Group's business at the meetings. At general meetings, separate resolutions are proposed on each substantial and separate issue such as the election of individual Directors and re-appointment of auditor.

Under the Code Provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting and should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. During the year ended 31 December 2017, Mr. Wu David Hang (Chairman of the Board) attended the annual general meeting of the Company held on 19 May 2017.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's head office and principal place of business in Hong Kong at Suite 510, Chater House, 8 Connaught Road Central, Hong Kong.

SHAREHOLDERS' RIGHT

Procedures for Shareholders to Convene an Extraordinary General Meeting

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to article 58 of the Articles. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the Company's head office and principal place of business in Hong Kong at Suite 510, Chater House, 8 Connaught Road Central, Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals at general meeting of the Company by sending the same to the Company at the head office of the Company in Hong Kong.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to the Articles, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such extraordinary general meeting, the Requisitionist(s) himself (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.

CORPORATE GOVERNANCE REPORT

Procedures for putting forward Proposals at a General Meeting

A shareholder shall make a written requisition to the Board or the company secretary at the Company's head office and principal place of business at Suite 510, Chater House, 8 Connaught Road Central, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the Company Secretary at the Company's head office and principal place of business at Suite 510, Chater House, 8 Connaught Road Central, Hong Kong or send email to cs@zhonghongintl.com.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

COMPANY SECRETARY

The company secretary of the Company (the "Company Secretary"), Mr. Chu Kin Ming ("Mr. Chu") tendered his resignation with effect from 28 February 2018. Mr. Chan Tsang Mo was appointed as the Company Secretary thereafter. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments and has regard to them when making decisions. The Company Secretary is also responsible for advising the Board on the Group's compliance with the continuing obligations of the Listing Rules, The Codes on Takeovers and Mergers and Share Buy-backs, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations. During the year ended 31 December 2017, Mr. Chu undertook not less than 15 hours of professional training to update his skills and knowledge.

CONSTITUTIONAL DOCUMENTS

During the period under review, there was no change in the Company's constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORT SCOPE, MATERIALITY AND PERIOD

This environmental, social and governance report (“ESG Report”) was published in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) as set out in Appendix 27 to the Listing Rules and the “comply or explain” provisions contained therein. The ESG Report covers the Group’s performances, initiatives of and commitments to environmental protection, operational safety, employee relationship, corporate governance and other aspects for the year from 1 January 2017 to 31 December 2017 (the “Period”). All information and data are from official documents or relevant record of the Company.

During the Period, the Group was mainly engaged in three businesses, namely (i) manufacture and distribution of leather products, (ii) retail of fashion apparel, footwear and leather accessories, and (iii) provision of property management services. Upon our materiality assessment, the Group decided to include in this ESG Report its manufacture operation in the PRC and retail business in Hong Kong.

We welcome stakeholders’ feedback and suggestions on the ESG Report and our sustainability performance.

For the Group’s corporate governance structure and other relevant information, please refer to pages 13 to 24 of this annual report.

REPORTING ON ENVIRONMENTAL ASPECTS

The Group understands that environmental protection and long-term development of the society is inextricably linked. As a responsible corporate, the Group formulates and constantly improves its guidelines and procedures of handling industrial wastewater and waste, whereby the employees are required to strictly observe them. The Group is committed to minimising its environmental impact from daily operation, developing a long term mechanism and relevant policies of environmental protection and energy saving to build a resource-saving and environment-friendly enterprise.

1. *Emission Management*

Waste and exhaust gas

Emissions from the Group’s operation of manufacture of leather products mainly include waste paint residue, waste wipes and gloves, waste can and other industrial waste. The Group strictly complies with the Environmental Protection Law of the People’s Republic of China (《中華人民共和國環境保護法》) and other applicable environmental laws and regulations as these industrial waste generated from production processes are handled by professional institutions. The Group submits relevant information to the Solid Waste Management Information Platform (《廣東省固體廢物管理信息平台》) pursuant to statutory requirements. These third-party institutions hold the Permit for Operation of Dangerous Wastes (《危險廢物經營許可證》) issued by the local environmental authorities and the relevant qualifications to collect, store, handle and dispose of waste. Their vehicles for transferring industrial waste, and the weight and packaging of industrial waste are under stringent control also.

In 2017, the amount of waste paint residue, waste paint can and other hazardous waste from the Group’s production processes of coating and packaging amounted to 700 kg, and the amount of waste wipes and gloves from the machine wiping process amounted to 300 kg. All of them were separated and recycled by certified contractors.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group holds the Permit for Pollutant Discharge (《污染物排放許可證》) issued by the local environmental authorities, which stipulates the concentration, and total amount limits of sulphur dioxide emission allowed by the state, thereby ensuring that the Group's emission level meets national requirement. The Group, in accordance with relevant requirements, submits to the environmental authorities the Return for Pollutant Emission (《排放污染物基本申報表》) which records the categories and standard value of emission. To reduce exhaust gas emission, the Group has installed activated carbon absorption equipment which is able to handle 72,000 cubic m³ of exhaust gas every hour. During the Period, the amount of benzene, methylbenzene and dimethylbenzene emitted by the Group were 12 mg/m³, 40 mg/m³ and 70 mg/m³, respectively, which were in line with the air pollutant limits.

Wastewater

The Group emphasises the effective use of water and has adopted several prevention measures. Oily sewage is treated through the sedimentation basin with grease and residue trap. Fecal wastewater is treated by three graded septic tanks. Paint residue at water curtain booth is cleaned and undergoes sedimentation regularly. The Group strictly complies with national requirements on discharge of industrial wastewater as it sends its industrial wastewater from paint generated from production process to professional institution for treatment, and declare its sewage discharge. The third-party institution responsible for the treatment of the Group's industrial wastewater holds the Permit for Pollutant Discharge issued by the Ministry of Environmental Protection, and keeps detailed record of transport weight, routes and dates of each treatment of industrial wastewater, in order to prevent secondary pollution during the transferring and treatment of industrial wastewater.

In 2017, the Group consumed 23,000 litres of water, representing a decrease of 2,000 litres over 2016. The amount of treated wastewater from paint was 200 tonnes, representing a decrease of 80 tonnes over 2016. In addition, the Group strictly follows the existing procedures to declare its discharge of industrial wastewater, including the concentrations of suspended solids and COD, to ensure that industrial wastewater is treated in a professional and effective manner.

During the Period, there was no incident of non-compliance with relevant environmental laws and regulations relating to exhaust gas and greenhouse gas emissions, wastewater treatment, and generation of hazardous and non-hazardous waste that have a significant impact on the Group.

2. *Efficient Use of Resources*

The Group promotes environmental awareness among employees, encourage staff from production department, retail outlets and offices to use paper, electricity and other office resources efficiently, through the following measures:

- advocating the use of email to reduce the use of paper
- promoting double-sided printing and paper recycling to reduce waste of paper
- switching off lights, computers, fans and other electronic appliances that lie idle
- replacing lighting tools of low energy-efficiency with LED and energy-saving lights
- promoting the use of video conference to minimise unnecessary business travel

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

These measures lower consumption of resources and energy from daily operation and production process. 1.63 million kWh of electricity, which is the main source of energy for production and operation, was consumed at the Group's factory in Dongguan City, Guangdong Province, in 2017, while our Hong Kong office recorded total electricity consumption of 15,000 kWh.

The Group constantly reviews its environmental policies and puts in more feasible environmental considerations during daily operation.

REPORTING ON SOCIAL ASPECTS

Employment and Labour Practices

1. Employment

Employment policy

Employees are the key assets to sustaining long-term development of the Company. The Group is dedicated to providing a fair and impartial employment platform. The Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Employment Ordinance (《僱傭條例》) (Chapter 57 of the Laws of Hong Kong) (the "Employment Ordinance") Law are stringently observed as the Group frames its employment policy. The Recruitment Safety Procedure of the Group regulates the procedures of recruitment, which is carried out based on the candidates' work experience, skills, academic background and other objective criteria.

The Group strictly complies with the Regulation on Labour Security Supervision (《勞動保障監察條例》), the Employment Ordinance to formulate its Non-discrimination Work Procedure, which allows all employees to enjoy equal employment opportunities free from any form of discrimination of nationality, religious belief, gender, marital status, disability and age (except for below 16).

The Group offers reasonable and competitive remuneration and employee benefits. The Group strictly complies with the Law of the People's Republic of China on the Protection of Disabled Persons (《中華人民共和國社會保障法》) and the Mandatory Provident Fund Schemes Ordinance (《強制性公積金計劃條例》) (Chapter 485 of the Laws of Hong Kong) Law, to pay for housing provident fund, social insurance, mandatory provident fund, labour insurance, employment security fund for the disabled among others. The Group also offers statutory rest periods, marital and bereavement leave, maternity leave, paid annual leave and sick leave.

In addition, the Group persistently improves its recruitment and promotion program. Employees' remuneration, benefits and promotion are reviewed and determined regularly based on employees' job performance, professional skills, work experience, growth potential and other factors. The Group has set up the Management Procedure of Work Hour and Overtime Work Hour to ensure reasonable work hours and adequate rest time for factory workers. All overtime work shall be performed in a voluntary manner. The Group strictly complies with the minimum wage stipulated by the local government authorities as overtime compensation is made based on the Management Procedure for Wage and Subsidy and relevant national laws and regulations.

With regards to the policies relating to dismissal of employees, if an employee has committed serious misconduct and fails to improve in spite of repeated warnings, his/her supervisor and the top management of the Company will have a thorough internal discussion and allow the employee to answer and explain before the dismissal is announced. The reasons for the dismissal will be conveyed to the employee clearly. The dismissal procedure must be in accordance to applicable laws and regulations as well.

As at the end of 2017, the Group had a total of 250 employees. Set out below is the composition of our employees by various metrics:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

By gender

Male	71.64%
Female	28.36%

By geographical location

Mainland China	68.66%
Hong Kong	31.34%

By employment type

Permanent	46.27%
Permanent and contracted	47.76%
Part-time and temporary	5.97%

By age

Below 30	5.97%
30-39	35.82%
40-49	32.84%
Above 50	25.37%

2. Health and Safety

The Group is committed to providing a healthy and safe working environment. It adheres the idea of “safety first and prevention is key”, with employees’ safety as its first priority. The Health and Safety Committee of the Group is responsible for overseeing the health and safety condition of the work environment, and safeguards it through induction training, on-the-job training and daily inspection. In addition, the Group also arranges health check for its staff.

The Group strictly implements various labour protection, safe production and fire prevention rules, and regularly coordinates safety check for factory, including:

- Carrying out daily patrol of production facility to ensure that employees wear protective gear properly, and keeping record for review;
- Organising regular training on usage of protective gear to raise employees’ awareness;
- Establishing Safety Organisational Structure for clear division of labour and minimising impact caused by accidents;
- Halting production when emergency and unsafe situation takes place;
- Producing statistics for serious factory incidents and making preventive measures based on the monthly statistics; handling fire, chemical leakage, serious safety and health incidents at factory in accordance with Emergency Preparation Contingency Procedure, and calling for meeting for review;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Performing regular check on machineries;
- Organising safety production contest to encourage employees to make reasonable suggestions and share experience from different departments;
- Organising regular fire drill, providing emergency and first-aid skill training; checking fire hydrant regularly and repairing, maintaining and replacing old and obsolete equipment;
- Solidifying theoretical knowledge base of medics and employees of specialty work procedures on a monthly basis.

For employees responsible for specialty work, such as electricians, instrument calibration staff, etc. They are required to obtain certification recognised by the national government in order to perform job duties. The Group's employees are required to:

- Carry out regular maintenance and repair on machineries to ensure safety;
- Switch off power when repairing electric appliances and hoisting safety signs of power outage and repair whilst assigning staff to secure the area and prevent others from electric shock;
- Ensure that electronic appliances and wire are in compliance with national safety requirement and have good insulation.

In addition, the Group stresses the importance of hygiene of work environment and promotes safety and hygiene awareness among employees. Garbage is not allowed to be left at factory overnight and the Group hires professional firms for pest and ant control.

For safety of chemical warehouse, the Group strictly complies with national standards relating to design and installation of electronic appliances, as well as national safety regulations of electronic appliances at explosive and hazardous area. For instance, the Group uses explosion-proof lighting tools at chemical warehouse; uses non-flammable PVC pipes to protect electricity wire at warehouse; installs separate switch box outside warehouse; prohibits the use of electric furnace, electric motor and other machines.

During the Period, the Group had no significant safety and casualty incidents.

3. Development and Training

The Group focuses on growing together with its employees and provides new joiners, current employees and management with training on professional skills so as to enhance competitiveness. The Group also encourages employees to self-learn and improve during spare time. Our human resources department provides newly-joined front-line employees with job training, covering corporate system, factory regulations, fire safety, equipment usage safety, in order to help new employees understand the corporate culture and requirements of relevant positions within the Group, and familiarise with the work environment and job duties.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Period, the Group provided employees with various training programs to improve work performance and kept record of the participants of each session, such as:

Internal training

- Proper use of protective gear/identifying of work procedure risks, ISO knowledge and system, hygienic, healthy and safe environment (all management)
- Team training (middle-management training)
- Understanding and training of ISO9000, production safety and 7S management (all employees)
- Quality attitude (quality assurance officers)

External training

- Internal three-level documentation training (all supervisors)

4. Labour Standard

The Group is in strict compliance with national laws and regulations to prohibit child labour and forced labour. Human resources officers will verify the identity of candidates during recruitment process. The Group has established the Work Procedure of No Forced Labour and allows employees to make complaints through opinion box, labour union and other channels. During the Period, the Group did not have any instances of forced labour and child labour.

The Group also prohibits any harassment to employees, and employees who report any harassment and abuse incidents will be protected. Upon investigation, employees who commit inappropriate act will be interdicted from duty or face a change of posting, and/or receive verbal or written warning(s). Severe case will be sent to law enforcement authorities. During the Period, there have not occurred any incident relating to complaints made about harassment to employees.

Operating Practices

5. Supply Chain Management

The Group places much emphasis on supply chain management and has established the Procurement Management Procedure to ensure that certified suppliers with high quality are engaged. We have well-established procedures for procurement procedure, and procurement quality of raw materials and packaging materials accordingly.

The Group has erected a designated procurement department and officers. Suppliers are sorted by their delivery quality, after-sales service, production scale, production capability and other indicators. Coupled with the Group's business needs, the Group will undertake integrated assessment on suppliers and rank their integrated capabilities from A to D, with those getting higher scores amongst the priority list; whilst limiting or even stopping procurement from suppliers which score low to ensure quality of raw materials. Our Procurement Department will fill out Procurement Forms based on requirements and purchase the materials needed from eligible suppliers on the list.

The Group adopted the principle of using local materials as far as reasonably possible. During the Period, major suppliers of the Group were mainly located in Dongguan, and nearby cities, such as Shenzhen, Guangzhou, Qingyuan and Huizhou, in order to minimise the carbon emission from transportation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. Product Responsibility

Product safety standards

The Group strictly adheres to consumer safety standards and ensures that there is no residual toxic substances in the leather surface of the products we produce and that all metal accessories we produce are safe to use. The Group performs stringent examinations on the incoming raw materials and the Group's major vendors also regularly perform lab test on products by way of sampling in order to comply with various applicable international safety standards.

Satisfying customers' needs

The Group endeavours to offer high-quality products and services. It has established the stringent Quality Assurance Standard and Inspection Management Procedure. Raw materials, materials, production process and product inspection standard are regulated through internal and cross-inspection. Products are made in strict accordance with clients' requirements to ensure quality. Our Quality Assurance Department will fill out the Source Material Inspection Report for any faulty and unqualified raw materials, suggest preventive measures based on actual circumstances and instruct the Procurement Department for recall from suppliers.

The Group's retail outlets in Hong Kong offer high-quality products and services to customers. Our Employee Manual states that employees shall maintain a customer-first attitude to serve customers in an enthusiastic and polite manner. The Group will investigate and handle customer complaints, and promptly respond to these complaints and take follow-up measures.

Privacy policy

The Group's retail outlets in Hong Kong are exposed to enormous amount of customer data. The Group stresses the importance of safeguarding data of employees and customers. The Group strictly complies with the Personal Data (Privacy) Ordinance (《個人資料(私隱)條例》) (Chapter 486 of the Laws of Hong Kong) and have set out relevant guidelines to ensure proper storage of customer data, with an aim to eliminating behaviour of unauthorised edit, use, resale or use for other purposes of customer information.

Publicity

The Group promotes its products of retail outlets through social media and offline campaigns. During the Period, all advertising and publicity activities are in strict compliance with the advertising and promotion laws and regulations enforced in regions where the Group operates its businesses. The Group did not publish any advertisement with false statement that would bring damage to consumers.

7. Anti-corruption

The Group upholds the operation principles of honesty and trustworthiness. The Group is committed to eliminating any fraud, bribery and corruption behaviour, with its formulation of Anti-business Corruption Regulation based on the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Prevention of Bribery Ordinance (《防止賄賂條例》) (Chapter 201 of the Laws of Hong Kong) and other national or regional laws and regulations.

The Group has formed a Corruption Prevention and Supervision department, and has also implemented the measures of reporting box and hotline. Officers at important positions are required to obtain relevant authorisation to enter into any external contract and agreement on behalf of the company. The Group prevents its employees from participation in any money-laundering activities through internal control.

Anonymous whistle-blowing mechanism

The Group has a comprehensive anonymous whistle-blowing mechanism whereby reports are handled by its anti-corruption and anti-bribery department. Personal information of the whistle-blower such as name and department will be kept in strict confidence. Investigation and verification will be carried out promptly once receiving any reports. Upon confirmation, severe case will be handled by judiciary authorities. The Group will also reward and recognise the whistle-blowers.

During the Period, the Group had no violation relating to corruption, bribery and other illegal acts.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Community

8. Community Investment

The Group attaches high importance to corporate social responsibilities and has formulated the Guideline for Social Responsibilities which promotes the caring of community. During the Period, the Group encouraged its employees to spend their spare time on community activities at their community and get to know the community. While the Group participated in various charity activities during the year, it will continue to take part in other activities to give back to society and help the needy, including organising activities and joining those held by other organisations.

ESG Reporting Guide of The Stock Exchange of Hong Kong Limited

Subject Areas	Content	Section in This ESG Report
A. Environmental Aspect		
A1 Emissions		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection – Emissions Management
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Protection – Emissions Management – Efficient Use of Resources
A3 Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Protection – Emissions Management – Efficient Use of Resources
B. Social Aspect		
<i>Employment and Labour Practices</i>		
B1 Employment		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practices – Employment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas		Content	Section in This ESG Report
B2	Health and Safety General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employment and Labour Practices – Health and Safety
B3	Development and Training General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employment and Labour Practices – Development and Training
B4	Labour Standard General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment and Labour Practices – Labour Standards
<i>Operating Practices</i>			
B5	Supply Chain Management General Disclosure	Policies on managing environmental and social risks of the supply chain.	Operating Practices – Supply Chain Management
B6	Product Responsibility General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Operating Practices – Product Responsibility

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas		Content	Section in This ESG Report
B7	Anti-corruption General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Operating Practices – Anti-corruption
<i>Community</i>			
B8	Community Investment General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

REPORT OF THE DIRECTORS

The directors (the “Directors”) are pleased to present their report together with the audited financial statements of Ascent International Holdings Limited (the “Company”) and its subsidiaries (collectively refer to the “Group”) for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND SEGMENTAL INFORMATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 25 to the consolidated financial statements.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group as well as discussion and analysis of the Group’s performance during the year and the material factors underlying its financial performance and financial position can be found in the “Chairman’s Statement” and “Management Discussion and Analysis” set out on pages 6 to 8 and pages 9 to 10 of this Annual Report respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group’s financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including market risk, credit risk, and liquidity risk. The risk management policies and practices of the Group are shown in note 30 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

The Group also commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as re-deployment of office furniture as far as possible, encourage use of recycled paper for printing and copying, double-sided printing and copying, reduce energy consumption by switching off idle lightings, air conditioning and electrical appliances.

For the year ended 31 December 2017, the Group was not subject to any environmental penalty. Details of the environmental, social and governance performance of the Group are set out in the section headed “Environmental, Social and Governance Report” on pages 25 to 34 of this Annual Report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended 31 December 2017, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers, customers and other stakeholders to meet its immediate and long-term goals.

REPORT OF THE DIRECTORS

During the year ended 31 December 2017, there was no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

PERMITTED INDEMNITY

During the year ended 31 December 2017, the Company has arranged appropriate insurance cover for Directors' and officers' liabilities.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 49 to 99 of this Annual Report.

The Directors do not recommend any payment of final dividend to shareholders for the year ended 31 December 2017.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out in note 24 to the consolidated financial statements and in the consolidated statement of changes in equity on page 51 of this Annual Report, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of share capital of the Company are set out in note 20 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2017, amounted to approximately HK\$57,059,000. Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the memorandum and articles of association of the Company and no distribution or dividend may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in ordinary course of business.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's memorandum and articles of association and there was no restriction against such rights under the laws of the Cayman Islands.

BANK LOANS AND OVERDRAFTS

The Group did not have bank loans and overdrafts as at 31 December 2017.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 100 of this Annual Report.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 11 to 12 of this Annual Report.

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this report were:

Executive Directors

Ms. Li Wei (*Chairlady*) (Appointed on 15 September 2017)
 Mr. Wu David Hang (Resigned on 15 September 2017)
 Mr. Hou Jian (Resigned on 15 September 2017)

Non-executive Director

Mr. Lui Kwok Wai (Appointed on 28 February 2017 and resigned on 16 March 2018)

Independent Non-executive Directors

Mr. Cheng Shing Hay (Appointed on 15 September 2017)
 Mr. Yau Pak Yue (Appointed on 18 September 2017)
 Mr. Wong Kon Man Jason (Appointed on 4 October 2017)
 Mr. Shen Xiao (Appointed on 18 October 2017)
 Mr. Wong Yik Chung John (Resigned on 20 September 2017)
 Mr. Ernst Rudolf Zimmermann (Resigned on 18 September 2017)
 Mr. Ng Man Fai Matthew (Resigned on 13 October 2017)

In accordance with Article 86(3) of the Company's Articles, Ms. Li Wei, Mr. Cheng Shing Hay, Mr. Yau Pak Yue, Mr. Wong Kon Man Jason and Mr. Shen Xiao shall retire from office in the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Details of service agreements or letters of appointment entered into by the Company with the Directors are as follows:

The current executive Director entered into service contract with the Company for a term of three years and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

The non-executive Directors enter into a letter of appointment with the Company and is not appointed for a specific term but is terminable by either party by giving to the other party one month's prior notice in writing and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

Each of the current independent non-executive Directors entered into a letter of appointment with the Company for an initial term of three years and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

REPORT OF THE DIRECTORS

Save as aforesaid, no Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the highest paid individuals of the Group are set out in note 10 to the consolidated financial statements.

EMOLUMENT POLICY

The emoluments of the Directors are recommended by the Remuneration Committee for the Board approval, having regard to the Company's operating results, individual performance and comparable market statistics.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or substantial shareholders of the Company or their respective close associates (as defined in the Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, during the year ended 31 December 2017 and up to the date of this Annual Report.

DIRECTORS' INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries, holding companies and fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period under review.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual written confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors as independent.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have been taken under such provisions of the SFO), or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SHARES ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2017 are set out in note 20 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2017, other than the interests and short positions of the Directors or chief executives of the Company disclosed above, person or corporation who had interests in the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

LONG POSITIONS

(a) Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Wang Yonghong	Interest of a controlled corporation	229,948,000 (Note 1)	60.09
Zhonghong Holding Co., Ltd.	Interest of a controlled corporation	229,948,000 (Note 1)	60.09
Zhurong Global Limited	Beneficial owner	229,948,000 (Note 1)	60.09
Mason Resources Finance Limited	Security interest	229,948,000 (Note 2)	60.09
Mason Group Holdings Limited	Interest of a controlled corporation	229,948,000 (Note 2)	60.09
Fang Cheng Yu	Beneficial owner	34,800,000	9.09

Notes:

- 229,948,000 shares are held by Zhurong Global Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Zhu Rong Hong Kong Investment Limited. Zhu Rong Hong Kong Investment Limited, a company incorporated in Hong Kong, is directly wholly owned by 珠海橫琴著融資產管理有限公司. 珠海橫琴著融資產管理有限公司, a company established in the PRC, is directly wholly owned by 中弘文化投資有限公司. 中弘文化投資有限公司, a company established in the PRC, is 80% directly owned by 北京中弘投資有限公司. 北京中弘投資有限公司, a company established in the PRC, is directly wholly owned by 北京永恆嘉業投資有限公司. 北京永恆嘉業投資有限公司, a company established in the PRC, is directly wholly owned by 北京中弘弘毅投資有限公司. 北京中弘弘毅投資有限公司, a company established in the PRC, is directly wholly owned by 中弘控股股份有限公司 (Zhonghong Holding Co., Ltd.*) ("Zhonghong") which is a company established in the PRC and its shares are listed on the Shenzhen Stock Exchange (stock code: 000979). Mr. Wang Yonghong, through one of his wholly-owned companies, 中弘卓業集團有限公司 (Zhonghong Zhuoye Group Company Limited*) was the controlling shareholder of Zhonghong and holds approximately 26.55% of the issued shares of Zhonghong.
- The security charges entered into between Zhurong Global Limited and Mason Resources Finance Limited ("Mason Resources"), a company incorporated in Hong Kong, dated on 27 October 2016. Mason Resources is wholly owned by Main Choice Investments Limited ("Main Choice"), a company incorporated in the British Virgin Islands. Main Choice is wholly owned by Mason Financial Services Group Limited ("Mason Financial Services BVI"), a company incorporated in the British Virgin Islands. Mason Financial Services BVI is wholly owned by Mason Financial Services Group Limited ("Mason Financial Services Cayman"), a company incorporated in the Cayman Islands. Mason Financial Services Cayman is wholly owned by Mason Group Holdings Limited, a company incorporated in Hong Kong.

* For identification purposes only

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2017 the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

Pursuant to the written resolutions of all the shareholders of the Company passed on 18 February 2003, the Company adopted a share option scheme (the “Share Option Scheme”).

The Share Option Scheme expired on 17 February 2013 and the Company has not adopted any new share option scheme thereafter.

There was no outstanding share option of the Company under the Share Option Scheme as at 1 January 2017 and 31 December 2017, respectively and no share option of the Company was granted, exercised, lapsed or cancelled during the period under review.

DIRECTORS’ RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading “Directors’ and chief executive’s interests and short position in the shares, underlying shares and debentures” and “Share options” above, at no time during the year ended 31 December 2017 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

MANAGEMENT CONTRACTS

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

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2017, save for the Share Option Scheme previously mentioned, the Company has not entered any equity-linked agreements, and there did not subsist any equity-linked agreement entered into by the Company as at 31 December 2017.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the period under review attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	11.2%
– five largest suppliers combined	36.6%
Sales	
– the largest customer	11.4%
– five largest customers combined	36.1%

None of the Directors, their close associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers stated above.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

The related-party transactions set out in note 27 to the consolidated financial statements include transactions which constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. Details of the related-party transactions entered into by Group during the year ended 31 December 2017 are set out in note 27 to the consolidated financial statements.

The following transactions are the connected transaction and continuing connected transactions between the connected persons (as defined in Rule 14A.06(7) of the Listing Rules) and the Company. Save as disclosed below, the Company has not entered into any other connected transaction that are subject to disclosure requirement under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the following transactions:

Continuing connected transaction in relation to the Framework Property Management Services Agreement and the Disposal Agreement

On 28 March 2017, Zhongxi Property Management Company Limited ("Zhongxi Property Management", together with its subsidiaries, "Zhongxi Property Management Group"), the then indirect wholly-owned subsidiary of the Company, entered into the framework property management services agreement (the "Framework Property Management Services Agreement") with Zhonghong Holding Co., Limited ("Zhonghong", and together with its subsidiaries, "Zhonghong Group"), the holding company of the Company, pursuant to which Zhongxi Property Management agreed to, by itself and/or its subsidiaries, provide certain property management services in relation to the properties developed by the Zhonghong Group.

The service fees payable by the Zhonghong Group and the terms of the services shall be determined after arm's length negotiations and commensurate with the rate of service fees charged by the Zhongxi Property Management Group. During the relevant period of the Framework Property Management Services Agreement, the aggregate amount of service fees payable by the Zhonghong Group to the Zhongxi Property Management Group shall not exceed RMB8,800,000 (equivalent to approximately HK\$9,900,000) which is determined based on the estimated amount of the service fees charged and to be charged by the Zhongxi Property Management Group for the six months ended 30 June 2017.

REPORT OF THE DIRECTORS

On 19 May 2017, Zhongxi Property Management and Zhonghong entered into a supplemental agreement (“the Supplemental Agreement”), pursuant to which it was proposed that the annual caps for the transactions contemplated under the Framework Property Management Services Agreement for the years ended 31 December 2017 and 31 December 2018 were revised to RMB19,000,000 (equivalent to approximately HK\$21,850,000) and RMB22,600,000 (equivalent to approximately HK\$25,990,000) respectively (instead of RMB8,800,000 (equivalent to approximately HK\$9,900,000) for the year ended 31 December 2017). The Supplemental Agreement would have become effective from the date on the passing of the ordinary resolution by the independent shareholders of the Company.

On 4 September 2017, Zhongxi Property Management, entered into the termination agreement with Zhonghong to terminate the Framework Property Management Services Agreement (as supplemented by the Supplemental Agreement) with effect from 4 September 2017 (the “Termination Agreement”).

Upon the entering into the Termination Agreement, on 4 September 2017, the Company as the vendor and Ocean Sound Enterprises Limited, which is wholly-owned by Zhonghong, as the purchaser entered into the disposal agreement (the “Disposal Agreement”), pursuant to which the Company conditionally agreed to sell, and the Purchaser conditionally agreed to purchase the entire share capital of Leisure State Limited, the then wholly-owned subsidiary of the Company, at the consideration of HK\$1 (the “Disposal”). Leisure State Limited is the holding company of Zhongxi Property Management. Since the Termination Agreement was entered into prior to the passing of the shareholders’ resolution with respect to the Supplementary Agreement, the revised annual caps under the Supplementary Agreement did not take effect.

After the Disposal, the Company is no longer engaged in property management business.

During the year ended 31 December 2017, the total revenue generated from the Zhongxi Property Management Services Agreement is HK\$10,021,000, of which HK\$9,879,000 was attributable to revenue generated from property management services provided to the Zhonghong Group, and HK\$142,000 was attributable to revenue generated from services provided to independent third parties.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2017

Apart from the aforementioned, and save as disclosed in note 31 to the consolidated financial statements, the Directors are not aware of any significant events requiring disclosure that has taken place subsequent to 31 December 2017 and up to the date of this Annual Report.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and code provisions (the "Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules.

The Company has complied with the Code Provisions as set out in the CG Code during the year ended 31 December 2017 except for the deviations from the Code Provisions A.2.1 and C.2.5 in respect of i) the separation of roles of the chairman of the Board (the "Chairman") and chief executive of the Company and ii) the internal audit function respectively. Details are set out in the section headed "Corporate Governance Report" on pages 13 to 24 of this Annual Report.

DONATIONS

During the year ended 31 December 2017, the Group made charitable donations amounting to HK\$1,001 (nine-month period ended 31 December 2016, HK\$1,500).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained a sufficient public float of not less than 25% of the Company's issued share as required under the Listing Rules throughout the year ended 31 December 2017 and up to the date of this announcement.

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process, internal controls and risk management systems of the Group. The audit committee currently comprises Mr. Yau Pak Yue (Chairman), Mr. Cheng Shing Hay, Mr. Wong Kon Man Jason and Mr. Shen Xiao. The Audit Committee has reviewed and discussed with the management and the external auditor the financial reporting matters including the annual results for the year ended 31 December 2017.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Li Wei

Chairlady

Hong Kong, 29 March 2018

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF ASCENT INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ascent International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) set out on pages 49 to 99, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTER

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 statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Net realisable value of inventories

Refer to Notes 5 and 15 to the consolidated financial statements and the accounting policy on inventories as shown in Note 4(g) to the consolidated financial statements.

The carrying amount of the Group's inventories as at 31 December 2017 was HK\$28,275,000, and a reversal of write-down of inventories amounting to HK\$3,044,000 was recognised in the Group's profit or loss for the year ended 31 December 2017.

In arriving at the carrying amount of the Group's inventories as at the end of reporting period and the amount of reversal of write-down of inventories during the period, management estimation on the net realisable value of inventories is required.

We have identified the net realisable value of inventories as a key audit matter because of the significance of the carrying amount of inventories; and because applying the Group's accounting policies in the net realisable value of inventories involves significant degree of estimation. Where the estimates of net realisable value exceed future selling prices or subsequent estimated net realisable value, a material write-down of inventories may arise.

Our response:

Our audit procedures were designed to challenge the application of the Group's accounting policy in relation to estimating the net realisable value of inventories as at 31 December 2017. These procedures included discussion with management on the accounting policy and procedures in respect of their review of write-down of inventories, analytical review procedures including analysis on the inventory turnover days and gross profit margin, and the following substantive procedures which were performed on a sampling basis:

- we observed the physical inventory count performed on the Group's inventories as at 31 December 2017 as part of the procedures for identifying obsolete or slowing moving inventories;
- we checked the ageing analysis of the Group's inventories which was used by management to identify those aged inventories with an indication of possible write-down of inventories;
- we checked the accuracy of the management calculation of write-down of inventory in accordance with the Group's accounting policy;
- we checked the net realisable value of inventories to supporting evidence such as sales invoices and sales orders which are subsequent to end of reporting period and representative of the subsequent selling prices of the inventories;
- we observed the physical condition of the long aged unused raw materials;
- we checked the historical usage of long aged raw materials during the period; and
- we checked the sale of finished goods subsequent to the end of reporting period.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES 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 of the Company 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 directors are also responsible for overseeing the Group's financial reporting process. The audit committee of the Company (the "Audit Committee") assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAAs, we exercise professional judgement 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 auditor's 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 auditor's 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 AUDITOR'S REPORT

From the matters communicated with the directors, 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 matter. We describe these matters in our auditor's 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.

BDO Limited

Certified Public Accountants

Wong Chi Wai

Practising Certificate Number P04945

Hong Kong, 29 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Revenue	7	78,937	83,256
Cost of sales		(43,958)	(54,003)
Gross profit		34,979	29,253
Other income and gains		335	281
Selling and distribution costs		(22,936)	(20,954)
Administrative and other operating expenses		(29,054)	(19,288)
Loss before income tax expense	8	(16,676)	(10,708)
Income tax expense	11	–	(87)
Loss from continuing operations		(16,676)	(10,795)
Profit from discontinued operation	12	2,451	–
Loss for the year/period attributable to owners of the Company		(14,225)	(10,795)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of financial statements of operations outside Hong Kong		639	(711)
Other comprehensive income arising from discontinued operation	12	153	–
Other comprehensive income for the year/period		792	(711)
Total comprehensive income for the year/period attributable to owners of the Company		(13,433)	(11,506)
Attributable to:			
Continuing operations		(16,037)	(11,506)
Discontinued operation		2,604	–
Total comprehensive income for the year/period		(13,433)	(11,506)
Loss per share from continuing operations attributable to owners of the Company			
– Basic and diluted	13	(HK4.74 cents)	(HK3.10 cents)
Loss per share attributable to owners of the Company			
– Basic and diluted	13	(HK4.05 cents)	(HK3.10 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property, plant and equipment	14	662	963
Deposits paid		1,226	3,260
		1,888	4,223
Current assets			
Inventories	15	28,275	35,512
Trade and bills receivables	16	8,402	13,131
Other receivables, deposits and prepayments		4,275	5,124
Amounts due from fellow subsidiaries	18	8	5
Tax recoverable		284	265
Bank balances and cash		44,507	21,475
		85,751	75,512
Current liabilities			
Trade payables	17	3,754	5,531
Other payables and accrued charges		9,563	13,654
Amount due to a director	18	–	121
Amounts due to fellow subsidiaries	18	7,206	4,180
Amount due to an intermediate holding company	18	5,590	5,590
		26,113	29,076
Net current assets		59,638	46,436
Total assets less current liabilities/Net assets		61,526	50,659
Capital and reserves attributable to owners of the Company			
Share capital	20	3,827	3,479
Reserves		57,699	47,180
Total equity		61,526	50,659

On behalf of the Board

Li Wei
Executive Director

Yau Pak Yue
Independent Non-executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital HK\$'000 (Note 20)	Share premium HK\$'000 (Note 24(i))	Foreign exchange reserve HK\$'000 (Note 24(iii))	Statutory and discretionary reserves HK\$'000 (Note)	Retained earnings/ (accumulated losses) HK\$'000 (Note 24 (ii))	Total HK\$'000
At 1 April 2016	3,479	53,808	3,693	5,249	(4,064)	62,165
Loss for the period	-	-	-	-	(10,795)	(10,795)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	(711)	-	-	(711)
Total comprehensive income for the period	-	-	(711)	-	(10,795)	(11,506)
At 31 December 2016 and 1 January 2017	3,479	53,808	2,982	5,249	(14,859)	50,659
Loss for the year	-	-	-	-	(14,225)	(14,225)
Disposal of subsidiaries (Note 22)	-	-	153	-	-	153
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	639	-	-	639
Total comprehensive income for the year	-	-	792	-	(14,225)	(13,433)
Shares issued under a subscription agreement, net of issue expenses of HK\$234,000 (Note 20)	348	23,952	-	-	-	24,300
At 31 December 2017	3,827	77,760	3,774	5,249	(29,084)	61,526

Note:

The statutory and discretionary reserves are non-distributable and the transfers to these reserves are determined by the board of directors and in accordance with the relevant laws and regulations of the People's Republic of China (the "PRC"). These reserves can be used to offset accumulated losses, expand the scale of production and business and increase capital of the subsidiaries in the PRC upon approval from the relevant authorities.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Cash flows from operating activities		
Loss before income tax expense		
Continuing operations	(16,676)	(10,708)
Discontinued operation	2,451	–
Loss before income tax including discontinued operation	(14,225)	(10,708)
Adjustments for:		
Interest income	(55)	(42)
Depreciation of property, plant and equipment	216	299
Gain on disposal of property, plant and equipment	(38)	–
Net gain on disposal of a subsidiary, net of transaction cost of HK\$86,000 (Notes 12 and 22)	(4,809)	–
Impairment loss/(reversal of impairment loss) on trade receivables	7	(40)
(Reversal of write-down)/write-down of inventories	(3,044)	370
Written off of on property, plant and equipment	–	11
Operating loss before working capital changes	(21,948)	(10,110)
Decrease in deposits paid	2,053	1,192
Decrease in inventories	11,618	3,317
Decrease/(increase) in trade and bills receivables	5,345	(5,547)
Decrease/(increase) in other receivables, deposits and prepayments	787	(3,282)
(Decrease)/increase in trade payables	(68)	896
(Decrease)/increase in other payables and accrued charges	(2,083)	2,374
Cash used in operations	(4,296)	(11,160)
PRC Enterprise Income Tax paid	–	(154)
Net cash used in operating activities	(4,296)	(11,314)
Cash flows from investing activities		
Interest received	55	42
Purchases of property, plant and equipment	(10)	(40)
Net cash outflow from disposal of a subsidiary (Note 22)	(2,098)	–
Payment for the professional fees related to disposal of a subsidiary (Note 22)	(86)	–
Sales proceeds from disposal of property, plant and equipment	152	–
Increase in amount due from a fellow subsidiary	(2,630)	(5)
Net cash used in investing activities	(4,617)	(3)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Cash flows from financing activities		
(Decrease)/increase in amount due to a director (Note 29(b))	(121)	121
Increase in amounts due to fellow subsidiaries (Note 29(b))	7,116	4,260
Proceeds from issue of shares, net of issue expenses of HK\$234,000	24,300	–
Increase in amount due to an intermediate holding company	–	5,000
Net cash generated from financing activities	31,295	9,381
Net increase/(decrease) in cash and cash equivalents	22,382	(1,936)
Cash and cash equivalents at beginning of year/period	21,475	24,008
Effect of exchange rate changes on cash and cash equivalents	650	(597)
Cash and cash equivalents at end of year/period		
represented by bank balances and cash	44,507	21,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

1. GENERAL

Ascent International Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The addresses of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” to the annual report. The Group, comprising the Company and its subsidiaries, is engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

During the year, the Company, through a wholly-owned subsidiary, had commenced the provision of property management services to a fellow subsidiary and ceased this operation upon completion of disposal of this subsidiary on 4 September 2017 as detailed in note 12.

The Company’s immediate holding company is Zhurong Global Limited, a company incorporated in the British Virgin Islands (the “BVI”). The directors of the Company consider that the Company’s ultimate holding company is Zhonghong Holding Co., Ltd. (“Zhonghong”), a company established in the PRC with its shares listed on the Shenzhen Stock Exchange (stock code: 000979), respectively; and its ultimate controlling party is Mr. Wang Yonghong, who holds approximately 26.55% of the issued shares of Zhonghong through one of his wholly-owned companies.

Due to the change of financial year end date from 31 March to 31 December in 2016 in order to be co-terminus with the new ultimate holding company, the consolidated financial statements for the current year cover a twelve-month period while the comparative amounts for consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover a period of nine-month period, and therefore they are not entirely comparable.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) *Adoption of amendments to HKFRSs – first effective on 1 January 2017*

During the year, the Group has adopted a number of amendments to the HKFRSs which did not have material impact on the Company’s consolidated financial statements except that additional disclosure is required to be made in the consolidated financial statements to satisfy the new disclosure requirements introduced by the amendments to HKAS 7 – Statement of Cash Flows: Disclosure Initiative.

The adoption of these amendments has led to the additional disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities. Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(b) *New/revised HKFRSs that have been issued but are not yet effective*

The following new/revised HKFRSs, potentially relevant to the Company’s consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions ¹
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ¹
HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
HKAS 28 (2011)	Investments in Associates and Joint Ventures ²
HK(IFRIC)-Int 23	Uncertainty Over Income Tax Treatments ²
HKFRS 16	Leases ²
HKFRSs (Amendments)	Annual Improvements to HKFRS 2015-2017 Cycle ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continues to be permitted.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 – Financial Instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes in the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(b) *New/revised HKFRSs that have been issued but are not yet effective (Continued)*

Expected impacts of the new requirements on the Group’s financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

- The classification for debt instruments is determined based on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity’s business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability’s credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the “incurred loss” model in HKAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. However, the Group is not yet practicable to provide a reasonable estimate of the effect of adoption of HKFRS 9 until the Group has completed a detailed review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)*(b) New/revISED HKFRSs that have been issued but are not yet effective (Continued)***HKFRS 15 – Revenue from contracts with customers**

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

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

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue. The directors anticipate that the application of HKFRS 15 may result in more disclosures. However, there will be no material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HK(IFRIC) – Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)*(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)***HKFRS 16 – Leases**

As disclosed in note 4(d), currently the Group classifies leases into operating leases, and accounts for the lease arrangements, according to the nature of the lease. The Group enters into leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and impact on the timing of the expense recognition in the statement of comprehensive income over the period of the lease. As disclosed in note 26, as at 31 December 2017 the Group’s future minimum lease payments under non-cancellable operating leases amounted to HK\$18,330,000, the majority of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group does not expect to adopt HKFRS 16 before its effective date of 1 January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)*(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)**HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments*

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

Other than the Group’s assessments performed so far on HKFRS 9, HKFRS 15 and HKFRS 16 as discussed above, the Group is not yet in a position to state whether other new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

3. BASIS OF PREPARATION*(a) Statement of compliance*

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES*(a) Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value using reducing balance method at the following principal annual rates:

Plant and machinery	– 30%
Furniture and fixtures	– 10% – 20%
Leasehold improvements	– Annual rates as determined by shorter of expected useful lives and the unexpired period of the leases
Motor vehicles	– 30%

The annual rates, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(c) Property, plant and equipment (Continued)*

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

*(e) Financial instruments**(i) Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables, including deposits paid, trade and bills receivables, other receivables, deposits, amounts due from fellow subsidiaries and bank balances and cash, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(e) Financial instruments (Continued)****(ii) Impairment loss on financial assets (Continued)**

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

Financial liabilities at amortised cost, including trade payables, other payables and accrued charges, and amounts due to a director, fellow subsidiaries and an intermediate holding company, are initially measured at fair value, net of directly attributable costs incurred, and are subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(e) Financial instruments (Continued)**(vi) Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(f) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of comprehensive income, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(g) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(h) Revenue recognition*

Revenue comprise the fair value of the consideration received or receivable for the sales of goods and the use of the Group's assets yielding interest and dividend, net of rebate and discounts. Provided it is probable that the economic benefit will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

(i) Income taxes

Income taxes for the period comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(j) Foreign currency*

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK\$) at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve. Exchange differences recognised in profit or loss of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

*(k) Employee benefits***(i) Short term employee benefits**

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the period when the employees render the related service.

(ii) Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(l) Impairment of non-financial assets**

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

(n) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the statement of financial position. Final dividends are recognised as a liability when they are approved by the shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*(o) Related parties*

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of 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 key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Write-down of inventories

Management estimate the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write down inventories to their net realisable values. Where the subsequent estimated net realisable value of inventories is less than the original estimate, a material write-down may arise.

Impairment loss on trade receivables

Impairment loss on trade receivables is made based on the evaluation of collectability and ageing analysis of accounts and on management's judgement by reference to the estimation of the future cash flow discounted at an original effective interest rate to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision makers that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

Manufacturing business	– Manufacturing and distribution of leather products
Retail business	– Retail of fashion apparel, footwear and leather accessories

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision makers for assessment of segment performance.

During the year, the Company, through a wholly-owned subsidiary, had commenced the provision of property management services to a fellow subsidiary and ceased this operation upon completion of disposal of this subsidiary on 4 September 2017. The financial information of this operating segment for the year ended 31 December 2017 is presented as discontinued operation as set out in note 12.

(a) Reportable segments

	Manufacturing business		Retail business		Total	
	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Revenue from external customers	51,049	59,477	27,888	23,779	78,937	83,256
Inter-segment revenue	6,101	6,313	-	-	6,101	6,313
Reportable segment revenue	57,150	65,790	27,888	23,779	85,038	89,569
Reportable segment loss	(2,764)	(48)	(3,059)	(3,340)	(5,823)	(3,388)
Depreciation of property, plant and equipment	132	175	40	48	172	223
(Reversal of write-down)/ Write-down of inventories	(2,027)	517	(1,017)	(147)	(3,044)	370
Additions to property, plant and equipment	6	34	4	1	10	35
Reportable segment assets	51,262	58,177	12,897	14,574	64,159	72,751
Reportable segment liabilities	11,067	14,229	912	1,101	11,979	15,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. SEGMENT REPORTING (CONTINUED)*(b) Reconciliation of reportable segment revenues, loss, assets and liabilities*

	2017 HK\$'000	2016 HK\$'000
Revenue		
Reportable segment revenue	85,038	89,569
Elimination of inter-segment revenue	(6,101)	(6,313)
Consolidated revenue	78,937	83,256
Loss before income tax expense		
Reportable segment loss	(5,823)	(3,388)
Elimination of inter-segment gains	(483)	(973)
Interest income	55	42
Unallocated corporate expenses (Note (i))	(10,425)	(6,389)
Consolidated loss before income tax expense	(16,676)	(10,708)
Depreciation of property, plant and equipment		
Reportable segment depreciation	172	223
Depreciation of unallocated property, plant and equipment	44	76
Consolidated depreciation of property, plant and equipment	216	299
Additions to property, plant and equipment		
Reportable segment additions	10	35
Unallocated additions to property, plant and equipment	–	5
Consolidated additions to property, plant and equipment	10	40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

6. SEGMENT REPORTING (CONTINUED)*(b) Reconciliation of reportable segment revenues, loss, assets and liabilities (Continued)*

	2017 HK\$'000	2016 HK\$'000
Assets		
Reportable segment assets	64,159	72,751
Tax recoverable	284	265
Unallocated corporate bank balances and cash	22,607	3,969
Unallocated deposit paid	–	2,000
Other unallocated corporate assets	589	750
Consolidated total assets	87,639	79,735
Liabilities		
Reportable segment liabilities	11,979	15,330
Amount due to a director	–	121
Amounts due to fellow subsidiaries	7,206	4,180
Amount due to an intermediate holding company	5,590	5,590
Unallocated corporate liabilities (Note (ii))	1,338	3,855
Consolidated total liabilities	26,113	29,076

Notes:

- (i) The amount represented unallocated corporate expenses that are not allocated to operating segments, including professional fees, directors' emoluments, employee costs, foreign exchange loss and other head office expenses.
- (ii) The amount represented unallocated deposits received and accrued head office professional fees and staff costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. SEGMENT REPORTING (CONTINUED)

(c) *Geographical information*

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments, i.e. property, plant and equipment.

	Revenue from external customers (Note)		Property, plant and equipment	
	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong (place of domicile)	32,876	29,296	309	498
Europe	14,513	17,855	–	–
The PRC	2,864	4,363	353	465
The United States of America	15,594	13,288	–	–
Other countries	13,090	18,454	–	–
Total	46,061	53,960	353	465
	78,937	83,256	662	963

Note: Revenues are attributed to countries on the basis of the customer's location.

(d) *Information about major customers*

Revenue from a major customer of the Group's manufacturing business segment accounting for 10% or more of the Group's revenue is set out below:

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Customer A	N/A*	8,858
Customer B	8,995	N/A*

* Revenue from Customer A during the year ended 31 December 2017 contributed less than 10% of the total revenue of the Group. Revenue from Customer B during the period ended 31 December 2016 contributed less than 10% of the total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

7. REVENUE

Revenue represents the net amounts received and receivable for goods sold to external customers, less returns and discount, if any, during the year/period.

8. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging/(crediting):

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Auditor's remuneration	800	750
Cost of inventories recognised as expenses	43,958	54,003
Employee costs, excluding directors' emoluments (Note 9)	39,929	31,398
Depreciation of property, plant and equipment	216	299
Write-off of property, plant and equipment	-	11
Gain on disposal of property, plant and equipment	(38)	-
Impairment loss/(reversal of impairment loss) on trade receivables, net	7	(40)
(Reversal of write-down)/write-down of inventories, net (included in cost of sales)	(3,044)	370
Foreign exchange(gain)/loss, net	(951)	52
Interest income	(55)	(42)

9. EMPLOYEE COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Salaries and other benefits	37,423	28,841
Retirement benefits scheme contributions	2,506	2,557
	39,929	31,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments for the year ended 31 December 2017 are as follows:

	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
For the year ended				
31 December 2017				
<i>Executive directors:</i>				
Li Wei (Appointed on 15 September 2017)	35	5	–	40
Wu David Hang (Resigned on 15 September 2017)	–	662	31	693
Hou Jian (Resigned on 15 September 2017)	–	–	–	–
<i>Independent non-executive directors:</i>				
Cheng Shing Hay (Appointed on 15 September 2017)	42	–	–	42
Shen Xiao (Appointed on 18 October 2017)	29	–	–	29
Wong Kon Man, Jason (Appointed on 4 October 2017)	35	–	–	35
Yau Pak Yue (Appointed on 18 September 2017)	41	–	–	41
Ernst Rudolf Zimmermann (Resigned on 18 September 2017)	163	–	–	163
Ng Man Fai Matthew (Resigned on 13 October 2017)	116	–	–	116
Wong Yik Chung John (Resigned on 20 September 2017)	108	–	–	108
	569	667	31	1,267
<i>Non-executive director:</i>				
Lui Kwok Wai (Appointed on 28 February 2017 and resigned on 16 March 2018)	–	–	–	–
Total	569	667	31	1,267

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10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)*(a) Directors' emoluments (Continued)*

	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
For the period from 1 April 2016 to 31 December 2016				
<i>Executive directors:</i>				
Wu David Hang	–	–	–	–
Hou Jian	–	–	–	–
<i>Independent non-executive directors:</i>				
Wong Yik Chung John	108	–	–	108
Ernst Rudolf Zimmermann	135	–	–	135
Ng Man Fai Matthew	108	–	–	108
Total	351	–	–	351

No directors waived any emoluments during the year ended 31 December 2017 and the period ended from 1 April 2016 to 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)*(b) Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 and the period ended 31 December 2016 are not directors of the Company. The emoluments of the top five (period ended 31 December 2016: 5 individuals) are as follows:

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Salaries and other benefits	4,047	2,484
Discretionary bonuses	189	–
Retirement benefits scheme contributions	167	97
	4,403	2,581

The emoluments of the top five (period ended 31 December 2016: 5) individuals were within the following bands:

	For the year ended 31 December 2017 No. of individuals	For the period from 1 April 2016 to 31 December 2016 No. of individuals
Nil to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	1	–

During the year ended 31 December 2017 and the period from 1 April 2016 to 31 December 2016, no emolument was paid to the directors or any of the five highest paid individuals as an inducement to join or upon joining by the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(c) *The emoluments paid or payable to members of senior management (including directors) were within the following bands:*

	For the year ended 31 December 2017 No. of individuals	For the period from 1 April 2016 to 31 December 2016 No. of individuals
Nil to HK\$1,000,000	13	8

11. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Current tax – PRC Enterprise Income Tax		
– tax for the year/period	–	82
– under-provision in respect of prior years	–	66
	–	148
Deferred tax	–	(61)
Income tax expense	–	87

No provision for Hong Kong Profits Tax has been made as the Group has sustained estimated tax losses for the year ended 31 December 2017 and the period from 1 April 2016 to 31 December 2016.

No provision for PRC Enterprise Income Tax has been made for the year ended 31 December 2017 as the Group has sustained estimated tax loss for the year.

PRC Enterprise Income Tax rate for the Company's subsidiaries in the PRC is 25% (for the period ended 31 December 2016: 25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year/period can be reconciled to the loss before income tax expense per the consolidated statement of comprehensive income as follows:

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Loss from continuing operations before taxation	(16,676)	(10,708)
Profit from discontinued operation before taxation (Note 12(i))	2,451	–
Loss before income tax expense	(14,225)	(10,708)
Tax credit calculated at Hong Kong Profits Tax rate of 16.5% (2016: 16.5%)	(2,347)	(1,767)
Tax effect of expenses not deductible for tax purpose	3,332	2,397
Tax effect of income not taxable for tax purpose	(1,810)	(458)
Under-provision in respect of prior years	–	66
Effect of different tax rates of subsidiaries operating in other jurisdiction	(1,069)	(685)
Tax effect of tax losses not recognised	3,170	1,817
Utilisation of tax losses previously not recognised	(1,326)	(1,025)
Tax effect of other deductible temporary difference not recognised	50	(258)
Income tax expense	–	87

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. INCOME TAX EXPENSE (CONTINUED)

In February 2018, the Hong Kong Inland Revenue Department (“IRD”) initiated a tax audit on certain subsidiaries of the Company. As the year of assessment 2011/12 would be statutorily time-barred after 31 March 2018, the IRD has issued assessment/ additional assessments amounting to HK\$648,000 to these subsidiaries to keep the year of assessment 2011/12 open for review. Objection against these assessment/ additional assessment has been duly lodged by the subsidiaries. Since the tax audit has just commenced recently and is still pending for fact-finding with different views to be exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with reasonable certainty. Nevertheless, management have performed assessment and based on the facts and circumstances up to the present, they consider the aforementioned subsidiaries have properly complied with the applicable Inland Revenue Ordinance in preparation of their Hong Kong Profits Tax computations for previous years. Therefore, for the purpose of the current year’s Hong Kong Profits Tax computation of these subsidiaries, management have followed the same basis as adopted in the prior years and consider no additional provision of Hong Kong Profits Tax is required to be made in the financial statements for the year ended 31 December 2017 in respect of the current and prior years. Management have sought for assistance from tax specialists in handling the tax audit.

12. DISCONTINUED OPERATION

As mentioned in note 6, on 4 September 2017, the Company completed the disposal of its 100% equity interest in a wholly-owned subsidiary, Leisure State Limited, and its subsidiaries (collectively “Leisure Group”) to a fellow subsidiary of the Company at a nominal cash consideration of HK\$1. The Group had decided to cease the provision of property management services because Leisure Group had sustained loss since the commencement of its business during the current year ended 31 December 2017 and management expected it would have difficulty in securing new business with third-party customers in the near future. Following the decision and completion of disposal of Leisure Group, this business is re-classified as a discontinued operation and is no longer included in operating segment information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. DISCONTINUED OPERATION (CONTINUED)

- (i) The financial performance for the period from 1 January 2017 to 4 September 2017 (date of disposal) is presented as follows:

	For the period from 1 January 2017 to 4 September 2017 HK\$'000
Revenue (Note)	10,021
Cost of sales	(6,204)
Gross profit	3,817
Other income	10
Administrative and other operating expenses	(6,185)
Loss before income tax of discontinued operation	(2,358)
Income tax expense	-
Loss after income tax of discontinued operation	(2,358)
Net gain on disposal of Leisure Group after income tax and transaction costs (Note 12(iii))	4,809
Profit from discontinued operation	2,451
Other comprehensive income	
Exchange differences on translation of discontinued operation	153
Total comprehensive income from discontinued operation	2,604

Note: The revenue generated with respect to property management services provided to properties developed by Zhonghong Holding Co., Limited, the holding company of the Company, and its subsidiaries amounted to HK\$9,879,000. The remaining portion of the revenue of HK\$142,000 was attributable to property management services provided to independent third party customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. DISCONTINUED OPERATION (CONTINUED)

- (ii) Net cash flows for the period from 1 January 2017 to 4 September 2017 (date of disposal) were as follows:

	For the period from 1 January 2017 to 4 September 2017 HK\$'000
Net cash inflows from operating activities	702
Net cash outflows from investing activities	(2,609)
Net cash inflows from financing activities	2,080
Net increase in cash and cash equivalents	173

	2017
Earnings per share	
Basic and diluted, from discontinued operation	0.70 cents

The calculations of basic and diluted earnings per share from discontinued operation are based on:

	For the year ended 31 December 2017 HK\$'000
Profit attributable to owners of the Company from discontinued operation	2,451

	For the year ended 31 December 2017 '000
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	351,622

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. DISCONTINUED OPERATION (CONTINUED)

(iii) Details of disposal

	2017 HK\$'000
Nominal cash consideration received (HK\$1)	-
Carrying amount of the net liabilities sold	5,048
Reclassification of foreign exchange reserve upon disposal	(153)
Transaction costs incurred for the disposal transaction	(86)
Net gain on disposal after income tax and transaction costs	4,809

The carrying amounts of assets and liabilities as at the date of disposal of 4 September 2017 are as follows:

	As at 4 September 2017 HK\$'000
Trade and other receivables	156
Amounts due from fellow subsidiaries	2,667
Cash and bank balances	2,098
Total assets	4,921
Trade and other payables	(5,616)
Amounts due to fellow subsidiaries	(4,353)
Total liabilities	(9,969)
Net liabilities	(5,048)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. LOSS PER SHARE*(a) Basic loss per share*

The calculation of basic loss per share and basic loss per share from continuing operations are based on:

Loss from continuing operation and loss attributable to owners of the Company are calculated as follows:

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Loss from continuing operations	(16,676)	(10,795)
Profit from discontinued operation (Note 12(i))	2,451	–
Loss attributable to owners of the Company	(14,225)	(10,795)

The weighted average number of 351,622,000 ordinary shares (period from 1 April 2016 to 31 December 2016: 347,904,000 ordinary shares) in issue during the year ended 31 December 2017 is used for calculation of basic loss per share from continuing operations and basic loss per share attributable to owners of the Company.

(b) Diluted loss per share

For the year ended 31 December 2017 and the period from 1 April 2016 to 31 December 2016, basic and diluted loss per share are equal as there are no potential dilutive ordinary shares in issue for the year/period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 January 2017	7,260	6,106	13,654	2,486	29,506
Additions	6	4	-	-	10
Disposal	-	(4)	-	(430)	(434)
Exchange realignment	165	11	-	50	226
At 31 December 2017	7,431	6,117	13,654	2,106	29,308
Accumulated depreciation and impairment					
At 1 January 2017	7,124	5,900	13,357	2,162	28,543
Depreciation	44	43	65	64	216
Eliminated on disposals	-	(4)	-	(316)	(320)
Exchange realignment	158	8	-	41	207
At 31 December 2017	7,326	5,947	13,422	1,951	28,646
Net book value					
At 31 December 2017	105	170	232	155	662
Cost					
At 1 April 2016	9,591	6,081	14,060	2,529	32,261
Additions	-	40	-	-	40
Write-off	(2,187)	(6)	(406)	-	(2,599)
Exchange realignment	(144)	(9)	-	(43)	(196)
At 31 December 2016	7,260	6,106	13,654	2,486	29,506
Accumulated depreciation and impairment					
At 1 April 2016	9,377	5,861	13,691	2,078	31,007
Depreciation	59	51	72	117	299
Eliminated on disposals	(2,176)	(6)	(406)	-	(2,588)
Exchange realignment	(136)	(6)	-	(33)	(175)
At 31 December 2016	7,124	5,900	13,357	2,162	28,543
Net book value					
At 31 December 2016	136	206	297	324	963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

15. INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Raw materials	19,870	25,815
Work in progress	1,960	1,299
Finished goods	6,445	8,398
	28,275	35,512

A reversal of impairment loss of HK\$3,044,000 during the year ended 31 December 2017 was mainly due to utilisation of certain previously impaired raw materials for production of finished goods which were sold above their carrying amounts and an increase in the estimated net realisable value of certain inventories with reference to the latest selling price or usage.

The impairment loss of HK\$370,000 for the year ended 31 December 2016 was mainly due to decrease in the estimated net realisable value of certain slow moving inventories.

16. TRADE AND BILLS RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Trade and bills receivables	9,163	13,885
Less: impairment loss	(761)	(754)
	8,402	13,131

Customers are generally granted with credit terms of 30 to 90 days. The ageing analysis of trade and bills receivables based on invoice date (net of impairment loss) at the end of reporting period is as follows:

	2017 HK\$'000	2016 HK\$'000
Less than 30 days	2,588	6,291
31 to 60 days	3,670	5,296
61 to 90 days	609	685
91 to 120 days	799	2
121 to 365 days	529	854
More than 365 days	207	3
	8,402	13,131

As at 31 December 2017, trade and bills receivables of approximately HK\$2,730,000 (2016: HK\$10,899,000) are neither past due nor impaired. Trade and bills receivables that are neither past due nor impaired related to customers for whom there is no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. TRADE AND BILLS RECEIVABLES (CONTINUED)

The ageing of trade and bills receivables which are past due but not impaired is as follows:

	2017 HK\$'000	2016 HK\$'000
Less than 30 days past due	4,019	1,259
31–60 days past due	118	113
61–90 days past due	796	2
91–120 days past due	334	110
121–365 days past due	359	748
More than 365 days	46	–
	5,672	2,232

Trade and bills receivables that are past due but not impaired related to customers that have good creditworthiness or good track record with the Group. Based on past experience, management considered no impairment is necessary as there has not been a significant change in credit quality of these balances, which are still considered fully recoverable.

The movement in the impairment loss on trade and bills receivables during the year/period is as follows:

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
At beginning of the year/period	754	794
Impairment loss/(reversal of impairment loss) recognised	7	(40)
At end of the year/period	761	754

The Group recognised impairment loss on individual assessment based on the accounting policy stated in Note 4(e)(ii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

17. TRADE PAYABLES

The ageing analysis of trade payables at the end of reporting period is as follows:

	2017 HK\$'000	2016 HK\$'000
Less than 30 days	2,706	2,566
31 to 60 days	499	1,377
61 to 90 days	71	689
91 to 120 days	49	160
121 to 365 days	122	419
More than 365 days	307	320
	3,754	5,531

18. AMOUNTS DUE FROM FELLOW SUBSIDIARIES AND AMOUNTS DUE TO A DIRECTOR, FELLOW SUBSIDIARIES AND AN INTERMEDIATE HOLDING COMPANY

The amounts are unsecured, interest free and repayable on demand.

19. UNRECOGNISED DEFERRED TAXATION

As at 31 December 2017, the Group had other deductible temporary difference of approximately HK\$5,028,000 (2016: HK\$5,335,000) and unused tax losses of approximately HK\$78,153,000 (2016: HK\$69,646,000). The deductible temporary difference and unused tax losses of approximately HK\$5,028,000 (2016: HK\$5,335,000) and HK\$63,037,000 (2016: HK\$64,918,000), respectively, can be carried forward indefinitely, while the remaining unused tax losses of approximately HK\$15,116,000 (2016: HK\$4,728,000) will expire in five years from the respective date of incurrence. Deferred tax assets have not been recognised in relation to such deductible temporary difference and unused tax losses due to unpredictability of future profit streams.

As at 31 December 2017, no deferred tax liability has been recognised on temporary difference in relation to the undistributed earnings of approximately HK\$10,967,000 (31 December 2016: HK\$12,267,000) of a subsidiary in the PRC because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in the foreseeable future.

The Group did not have other material unrecognised deferred tax assets and liabilities at the end of respective reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. SHARE CAPITAL

(a) *Authorised and issued share capital*

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2016, 31 December 2016, 1 January 2017 and 31 December 2017	2,000,000,000	20,000
Issued and fully paid:		
At 1 April 2016, 31 December 2016 and 1 January 2017	347,904,000	3,479
Shares issued under a subscription agreement (Note)	34,800,000	348
At 31 December 2017	382,704,000	3,827

Note:

On 23 November 2017, 34,800,000 new ordinary shares of HK\$0.01 each were issued at HK\$0.705 per share pursuant to a subscription agreement dated 8 November 2017. This resulted in a net proceeds of HK\$24,300,000, of which HK\$348,000 and HK\$23,952,000 (net of issue expenses of HK\$234,000) were credited to share capital and the share premium account respectively. The shares were issued to provide additional working capital to the Group and for financing potential investments.

(b) *Capital management policy*

The Group regards the share capital and reserves attributable to owners of the Company as its capital which amounts to approximately HK\$61,526,000 (2016: HK\$50,659,000) as shown in the consolidated statement of financial position as at 31 December 2017. The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may raise bank borrowings and adjust the amount of dividends paid to shareholders.

No changes were made in the objectives or policies during the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. DIVIDENDS

The directors of the Company do not recommend the payment of interim or final dividends for the year ended 31 December 2017 and the period ended 31 December 2016.

22. DISPOSAL OF SUBSIDIARIES

On 4 September 2017, the Group completed the disposal of its 100% equity interest in Leisure Group as detailed in note 12 at a cash consideration of HK\$1. This disposal resulted in a net gain of HK\$4,809,000.

The assets and liabilities of the captioned subsidiaries disposed of as at 4 September 2017 are as follows:

	4 September 2017 HK\$'000
Net liabilities disposal of:	
Trade and other receivables	156
Amounts due from fellow subsidiaries	2,667
Cash and cash equivalents	2,098
Trade and other payables	(5,616)
Amounts due to fellow subsidiaries	(4,353)
Net liabilities disposed of	(5,048)
Net liabilities attributable to equity owners of the Company	(5,048)
Foreign exchange reserve realised on disposal	153
Transaction costs incurred for the disposal	86
Net gain on disposal of a subsidiary	4,809
Cash consideration	-
Satisfied by:	
Cash consideration received	-
Cash of subsidiaries disposed of	(2,098)
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	(2,098)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Investments in subsidiaries		52,455	55,844
Deposit paid		–	2,000
		52,455	57,844
Current assets			
Other receivables		391	394
Amounts due from subsidiaries		29	1
Amounts due from fellow subsidiaries		8	–
Bank balances and cash		22,572	2,138
		23,000	2,533
Current liabilities			
Accrued charges and other payables		1,338	1,260
Amounts due to subsidiaries		435	839
Amount due to a director		–	121
Amounts due to fellow subsidiaries		7,206	2,171
Amount due to an intermediate holding company		5,590	5,590
		14,569	9,981
Net current assets/(liabilities)		8,431	(7,448)
Total net assets		60,886	50,396
Capital and reserves			
Share capital	20	3,827	3,479
Reserves	24	57,059	46,917
Total equity		60,886	50,396

On behalf of the Board

Li Wei
Executive Director

Yau Pak Yue
Independent Non-executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

24. RESERVES*The Company*

	Share premium HK\$'000 (Note (i))	Retained earnings/ (accumulated losses) HK\$'000 (Note (ii))	Total HK\$'000
At 1 April 2016	101,979	(58,966)	43,013
Profit and total comprehensive income for the period	–	3,904	3,904
At 31 December 2016 and 1 January 2017	101,979	(55,062)	46,917
Loss and total comprehensive income for the year	–	(13,810)	(13,810)
Shares issued under a subscription agreement, net of issue expenses of HK\$234,000 (Note 20(a))	23,952	–	23,952
At 31 December 2017	125,931	(68,872)	57,059

Notes:

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
(i) Share premium	Amount subscribed for share capital in excess of nominal value.
(ii) Retained earnings/(accumulated losses)	Cumulative net gains and losses recognised in profit or loss.
(iii) Foreign exchange reserve	Gains/losses arising on retranslating the net assets of operations outside Hong Kong into presentation currency

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2017 are as follows:

Name	Place of incorporation or establishment/ operations	Issued share capital/paid-up registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Chanco International Holding Limited	The BVI/Hong Kong	Ordinary shares United States Dollars ("USD")1,000	100%	–	Investment holding
Sun Ray Manufactory, Limited	Hong Kong	Non-voting deferred shares HK\$6 Ordinary shares HK\$2	–	100%	Manufacturing and trading of leather products
Elite Leatherware Company Limited	Hong Kong	Ordinary shares HK\$10,000	–	100%	Trading of leather products
Talent Union Development Limited	The BVI/Hong Kong	Ordinary shares USD8	–	100%	Investment holding
Dongguan Ngai Luen Leather Goods Company Limited (Note (b))	The PRC	Paid up registered capital HK\$5,600,000	–	100%	Manufacturing and trading of leather products
Dongguan Sze Cheik Leather Goods Company Limited (Note (b))	The PRC	Paid up registered capital HK\$5,000,000	–	100%	Manufacturing and trading of leather products
Amid Success Holdings Limited	The BVI/Hong Kong	Ordinary share USD1	–	100%	Investment holding
Urban Stranger Company Limited	Hong Kong	Ordinary share HK\$1	–	100%	Retail of fashion apparel, footwear and leather accessories
Elite Ascent Investments Limited (Note(a))	The BVI	Ordinary share USD1	100%	–	Inactive
Shine On Management Limited(Note(a))	Hong Kong	Ordinary share HK\$1	–	100%	Inactive

Notes:

- (a) These subsidiaries were newly incorporated/established during the year ended 31 December 2017
- (b) These subsidiaries are wholly foreign-owned enterprises established in the PRC.

None of the subsidiaries had any debt securities subsisting at the end of respective reporting periods or at any time during the year/period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. OPERATING LEASES

Operating lease payments represent rental payable by the Group for its offices, retail outlets and production plants. Leases are negotiated and rentals are fixed for an average term of one to five years (2016: one to five years), and the leases for certain retail outlets include contingent rents, which are determined by applying pre-determined percentages to sales less the basic rentals of the respective leases.

The lease payments recognised as expenses during the year/period are as follows:

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Minimum lease payments	15,426	13,226
Contingent rents	–	70
	15,426	13,296

The total future minimum lease payments are due as follows:

	2017 HK\$'000	2016 HK\$'000
Not later than one year	9,115	11,653
Later than one year and not later than five years	9,215	13,247
	18,330	24,900

The above lease commitments only include commitments for basic rentals, and do not include commitments for contingent rents, if any, as it is not practical to determine in advance the amount of such additional rentals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year/period:

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	780	585

Mr. Chan Woon Man is a director of a subsidiary of the Company and was previously a substantial shareholder of the Company up to 7 September 2015. Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man. The above related party transaction constituted continuing connected transaction, as defined in Chapter 14A of the Listing Rules.

(b) Relating to discontinued operation

- (i) Pursuant to the framework cooperation agreement dated 28 March 2017, as supplemented on 20 April 2017 and 19 May 2017, (the "Framework Property Management Services Agreement"), Zhonghong had agreed to engage Zhongxi Property Management Company Limited ("Zhongxi"), an indirect wholly-owned subsidiary of Leisure State Limited which was disposed of by the Company on 4 September 2017 to a fellow subsidiary of the Company as detailed in note 12, to provide property management services in relation to the properties developed by Zhonghong or its subsidiaries. The service fees receivable and terms of services were determined after arm's length negotiations and commensurate with the rate of service fee charged by Zhongxi and the relevant terms for similar services provided to independent third parties. The service fees received by Zhongxi during the period from 1 January 2017 to 4 September 2017 amounted to HK\$9,879,000 (equivalent to approximately RMB8,661,000) (2016: Nil). The captioned agreement was terminated by both contracting parties on 4 September 2017.
- (ii) On 4 September 2017, the Company completed the disposal of its 100% equity interest in Leisure Group to a fellow subsidiary as detailed in note 12, which is an indirectly wholly-owned subsidiary of Zhonghong.

The above related party transactions constituted connected transaction or continuing connected transaction, as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected Transactions and Related Party Transactions" of the Report of the Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. RELATED PARTY TRANSACTIONS (CONTINUED)*(c) Compensation of key management personnel*

The remuneration of directors and other members of key management during the year/period was as follows:

	For the year ended 31 December 2017 HK\$'000	For the period from 1 April 2016 to 31 December 2016 HK\$'000
Short-term benefits	2,170	483
Post employment benefits	65	7
	2,235	490

28. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2017 HK\$'000	2016 HK\$'000
Cash available on demand	44,507	21,475
	44,507	21,475

(b) Reconciliation of liabilities arising from financing activities during the year ended 31 December 2017:

	Amount due to a director HK\$'000	Amounts due to fellow subsidiaries HK\$'000	Amount due to an intermediate holding company HK\$'000
At 1 January 2017	121	4,180	5,590
Changes from cash flows:			
Net cash inflows/(outflows)	(121)	7,116	-
Non-cash transactions:			
Disposal of subsidiaries (Note 22)	-	(4,353)	-
Exchange difference	-	263	-
Total changes from financing cash flows:	(121)	3,026	-
At 31 December 2017	-	7,206	5,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. FINANCIAL RISK MANAGEMENT

Exposure to currency, interest rate, credit and liquidity risks arises in the normal course of the Group's business.

These risks are limited by the Group's financial management policies and practices described below.

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, mainly denominated in USD and RMB, which expose the Group to currency risk. Certain financial assets and liabilities of the Group are also denominated in USD and RMB. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD.

The carrying amounts of the Group's financial instruments denominated in RMB at the end of reporting period are as follows:

	Liabilities		Assets	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
RMB	397	183	42	11

It is estimated that an appreciation or depreciation of 2% (2016: 2%) in RMB against HK\$ at 31 December 2017, with all other variables held constant, would have insignificant effects on the loss or other components of equity of the Group for the year 31 December 2017 and the period ended 31 December 2016.

The Group currently does not have a foreign currency hedging policy. However, management monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group's exposure to cash flow interest rate risk is mainly attributable to its interest-bearing bank deposits. The interest rate of bank deposits is subject to changes as determined by banks. The Group currently does not have an interest rate hedging policy and will consider to enter into interest rate hedging should the need arise.

At 31 December 2017, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have decreased/increased the loss for the year and decreased/increased the accumulated losses at the end of reporting period by approximately HK\$106,000 (period ended 31 December 2016: HK\$47,000).

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30. FINANCIAL RISK MANAGEMENT (CONTINUED)*(iii) Credit risk*

The Group has certain concentration of credit risk on trade and bills receivables as the amounts due from its three (2016: three) customers as at 31 December 2017 amounted to approximately HK\$3,376,000 (2016: HK\$5,598,000) which accounted for approximately 40% (2016: 43%) of the trade and bills receivables.

The Group has policies in place to determine credit limit, credit approval and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts from customers. In this regard, the directors of the Company consider that the Group does not expose to significant credit risk.

The credit risk for cash at banks is limited because the counterparties are banks with high credit-ratings.

(iv) Liquidity risk

Internally generated cash flows are the general sources of funds to finance the operations of the Group. The Group's liquidity risk management includes maintaining adequate bank balances to meet its requirement of operations. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. In addition, its ultimate holding company has undertaken to provide continuing financial support to the Group to meet its financial obligations as and when they fall due. The Group's financial liabilities comprise trade payables, other payables and accrued charges and amounts due to a director, fellow subsidiaries and an intermediate holding company maturing in less than one year and their contractual undiscounted payments approximate their carrying amounts included in the consolidated statement of financial position.

(v) Fair values

As at 31 December 2017 and 31 December 2016, the Group has no financial instruments carried at fair value. The directors of the Company consider the fair values of the Group's financial assets and financial liabilities approximate their carrying amounts as at the end of respective reporting periods.

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31. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 23 January 2018, the Company announced that, Elite Ascent Investments Limited (“Elite Ascent”), a direct wholly-owned subsidiary of the Company, Ms. Leung Shuk Ching, Jubilee ventures International Limited and Eastation Gallery (HK) Limited (the “JV Company”) entered into the joint venture agreement (“JV agreement”), pursuant to which Elite Ascent has agreed to subscribe for 300 shares of the JV Company which represents 30% of the enlarged issued share capital in the JV Company following completion of the subscriptions at a total subscription price of HK\$20 million. The subscription of the JV Company’s shares by Elite Ascent was completed immediately following the execution of the JV agreement. The JV Company, which is principally engaged in consultation and trading of artworks and the operating of an art gallery in Hong Kong, would be accounted for as a joint venture of the Group.

32. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial periods is set out as follows:

	Year ended 31 December 2017 HK\$'000	Nine months ended 31 December 2016 HK\$'000	Year ended 31 March		
			2016 HK\$'000	2015 HK\$'000	2014 HK\$'000

Results

Loss for the year/period	(14,225)	(10,795)	(28,052)	(25,780)	(38,866)
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	As at December		As at 31 March		
	2017 HK\$'000	2016 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000

Assets and liabilities

Total assets	87,639	79,735	80,606	247,897	273,496
Total liabilities	(26,113)	(29,076)	(18,441)	(21,541)	(23,140)
Total equity	61,526	50,659	62,165	226,356	250,356