

# Independent Joint Auditors' Report

to the shareholders of Joyas International Holdings Limited  
(incorporated in Bermuda with limited liability)

## Report on the Audit of the Financial Statements

### Disclaimer of Opinion

We were engaged to audit the financial statements of Joyas International Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for Disclaimer of Opinion

*Disclaimer of Opinion on the financial statements for the year ended 31 December 2016*

Our audit report dated 7 June 2017 on the consolidated financial statements for the previous year ended 31 December 2016 contained a disclaimer of opinion on the following matters:

- a. Consolidation of controlled entities
- b. Control over other entities
- c. Inventories
- d. Non-trade amounts due to former subsidiaries and opening balances
- e. Staff costs
- f. Income taxes
- g. Valuation of non-financial assets (mainly intangible assets, property, plant and equipment and goodwill) for the jewellery, financing and nickel ore businesses of the Group
- h. Purchase price allocation for the acquisition of the jewellery, financing and nickel ore businesses of the Group
- i. Deposits paid to a supplier
- j. Appropriateness of going concern assumptions of the Group and the Company
- k. Related party transactions and balances

Items that have a continuing relevance to the 2017 financial statements are further elaborated below:

- (i) Consolidation of controlled entities

In connection with the audit for the year ended 31 December 2016, and in accordance with IFRS 10 Consolidated Financial Statements, the Group re-assessed and determined that it was deemed to have control over certain entities (the "Controlled Entities") in which it had no legal ownership and holds no equity interest, based on various facts and circumstances which remained consistent during the financial years, including years prior to 2016.

We were informed by the management of the Group that insofar as the accounting records of the Controlled Entities are concerned, the directors of the Controlled Entities were only able to provide the financial statements in respect of the financial year ended 31 December 2016. As a result, the financial statements of the Controlled Entities had been consolidated in the financial statements of the Group only from 1 January 2016.

Had the Controlled Entities been consolidated from the date of control was gained, some elements of the financial statements for the year ended 31 December 2017 could have been materially affected. In view of the matters and limitations on the scope of our work as described in the preceding paragraphs, we were unable to obtain sufficient appropriate audit evidence on the opening balances. Any adjustments to the opening balances might have a consequential effect on the results and cash flows for the year ended 31 December 2017 and the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2017.

Consequently, the carrying amounts of the affected balances as of 31 December 2016 and 2017 may have to be adjusted accordingly with a corresponding impact to the Group's profit or loss for the financial year ended 31 December 2017 and the accumulated losses and net assets of the Group as at 31 December 2017.

In the absence of further information, we were unable to quantify those financial effects.

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## Basis for Disclaimer of Opinion (Cont'd)

### (ii) Control over other entities

We were unable to obtain sufficient appropriate audit evidence to assess whether the following entities are controlled by the Group:

- (a) Entity A – An entity in which the Company's Chairman cum Managing Director, who is also a major shareholder of the Company, was the beneficial owner of the entire equity interest of Entity A based on the documents made available to us previously.
- (b) Entity B – A subsidiary of Entity A, that is a former subsidiary of the Group, which JGL Group has transactions with in the prior years.
- (c) Entity C – A major customer whose key management personnel, a sibling of the Company's Chairman cum Managing Director, and shareholder are former employees of a subsidiary.

We were unable to satisfy ourselves by alternative means concerning the appropriate accounting treatment of these entities and the adequacy of the related disclosures, including related party transactions, in the financial statements for FY2016 and FY2017.

The auditors' report of the Group for the financial year ended 31 December 2016 included a similar basis for disclaimer on this matter.

### (iii) Inventories

Stated on the face of the financial statement as at 31 December 2016 are inventories of HK\$5,526,000. The Group writes down value of inventories using a general provision based on the ageing profiles of the inventories. IAS 2 Inventories requires inventories to be measured at the lower of cost and net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. We were unable to satisfy ourselves by alternative means concerning the write-down in value of inventories for the year ended 31 December 2016, and the carrying amount of inventories as at 31 December 2016.

### (iv) Non-trade amounts due to former subsidiaries

Stated on the face of the financial statements as at 31 December 2016 are non-trade amounts due to former subsidiaries of HK\$21,126,000. We were not able to carry out procedures on the non-trade amounts due to the former subsidiaries as at 31 December 2016 because documentation supporting the transactions were not fully available. We were unable to satisfy ourselves by alternative means concerning the validity, existence and accuracy of these non-trade amounts due to former subsidiaries.

### (v) Valuation of intangible asset

As disclosed in Note 3(b) to the financial statements, intangible assets amounting to HK\$600,000 were written off to profit or loss for the financial year ended 31 December 2017. We were unable to obtain sufficient documentary evidence and satisfactory explanation from management, including reasonable bases and assumptions supporting to assess whether the assets written-off were necessary. Consequently, we were unable to satisfy ourselves by alternative means concerning the assets written-off for the year ended 31 December 2017. In the absence of information to be provided by management, we were unable to ascertain the adequacy of the related disclosures in the financial statements.

The auditors' report of the Group for the financial year ended 31 December 2016 included a disclaimer on the non-amortisation of the intangible assets.

### (vi) Valuation of property, plant and equipment

As at 31 December 2016, the carrying amounts of property, plant and equipment attributable to the Metal Gift Products Cash-Generating Unit ("CGU") and Jewellery Products CGU were HK\$8,521,000 and HK\$4,100, respectively. Management did not estimate the recoverable amounts of property, plant and equipment of these CGUs as at 31 December 2015 and 31 December 2016 for which impairment indications had been identified. There were no alternative audit procedures that we could perform to satisfy ourselves as to the carrying amount of property, plant and equipment as at 31 December 2016.

### (vii) Purchase price allocation and impairment of goodwill for financing and nickel ore businesses

Management did not perform a purchase price allocation for the business acquisitions in 2016. Goodwill was measured as the excess of purchase prices over the carrying book value of net assets acquired, which constitutes a departure from the requirements of IFRS 3 Business Combinations. There were no alternative audit procedures that we could perform to satisfy ourselves as to the fair value of assets acquired and liabilities assumed, appropriateness of non-recognition of any intangible assets, the resultant goodwill recognised, capital contribution reserves and non-controlling interests at the acquisition dates.

As disclosed in Note 3(a) to the financial statements, impairment of goodwill amounting to HK\$652,000 was recognised in profit or loss for the financial year ended 31 December 2016 based on negative future cash flows derived from actual results for the financial year ended 31 December 2016. We were unable to obtain sufficient documentary evidence and satisfactory explanation from management, including reasonable bases and assumptions supporting the cash flow projections, to assess whether the impairment losses were necessary. Consequently, we were unable to satisfy ourselves by alternative means concerning the impairment losses for the year ended 31 December 2016. In the absence of information to be provided by management, we were unable to ascertain the adequacy of the related disclosures and carrying amounts of the various items in the financial statements.

We did not provide an opinion on the financial statements of the Group for the financial year ended 31 December 2016. Had these matters been satisfactorily resolved in the current year, necessary adjustments to opening balances at 1 January 2017 would have consequential effects on the current year's profit or loss and other elements of the financial statements.

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## Basis for Disclaimer of Opinion (Cont'd)

### (viii) Deposits paid to a supplier

Included in trade and other receivables of the consolidated statement of financial position as at 31 December 2017 and 31 December 2016 are deposits of HK\$24,377,000 paid to a supplier which is a related party by virtue of a director and shareholder of the supplier being a key management personnel of the Group. We were unable to obtain sufficient appropriate audit evidence on the utilisation of the deposits paid to the supplier. Consequently, we were unable to satisfy ourselves as to the appropriateness of the carrying amount of the deposits paid to the supplier as at 31 December 2017 and 2016.

The auditors' report of the Group for the financial year ended 31 December 2016 included a similar basis for disclaimer on this matter.

### (ix) Going concern

We draw attention to Note 2(a) to the financial statements. The Group incurred net losses and net operating cash outflows of HK\$7,194,000 (2016 - HK\$21,706,000) and HK\$21,704,000 (2016 - HK\$13,520,000), respectively, for the financial year ended 31 December 2017. The cash balance as at 31 December 2017 is HK\$9,262,000 for the Group and HK\$731,000 for the Company.

These matters indicate the existence of a material uncertainty which cast significant doubt on the Group's and the Company's ability to continue as going concerns. The going concern assumption under which the financial statements are prepared is dependent on the positive cash flows to be generated by the Group and the Company from its operations in future.

We were unable to assess the reliability of management's cash flows projections nor assess the feasibility of their plans for future actions in relation to their going concern assessment due to insufficient appropriate evidence. Therefore, we are not able to determine whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate.

The auditors' report of the Group for the financial year ended 31 December 2016 included a similar basis for disclaimer on this matter.

### (x) Related party transactions and balances

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness of related parties and transactions and balances with related parties. We were unable to obtain satisfactory explanation from management on the background and commercial justification of certain related party transactions. Consequently, we were unable to establish whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements for the financial year ended 31 December 2017 and the comparative information for the year ended 31 December 2016.

The auditors' report of the Group for the financial year ended 31 December 2016 included a similar basis for disclaimer on this matter.

### (xi) Disposal of subsidiaries of JGL Group

As disclosed in Note 5 to the financial statements, the Group disposed of the 100% equity interest of Joyas Group Limited ("JGL") and its subsidiaries ("JGL Group") to an individual purchaser in June 2017. However, the Group has de-consolidated the JGL Group with effect from 1 January 2017 in accordance with the terms of the agreement and recognised a gain on disposal of HK\$1,265,000 in the consolidated statement of comprehensive income for the financial year ended 31 December 2017.

In addition, certain directors of JGL Group's subsidiaries remained the same as at 31 December 2016 and after JGL had been disposed in 2017. We have not been provided with adequate supporting information to ascertain if the control over JGL Group was lost on 1 January 2017 or if control was lost.

### (xi) Disposal of subsidiaries of JGL Group (Cont'd)

The gain on disposal of the subsidiaries was computed based on the unaudited financial statements of the JGL Group up to the date of disposal and management was unable to provide any proper evidence to support the accuracy of the carrying amounts of JGL Group to be de-consolidated as well as the gain on disposal of subsidiaries.

Included in trade and other receivables of the Company and the Group is an amount of HK\$12,000,000 relating to the sales consideration receivable from the disposal of JGL. We are unable to determine if the gross carrying amount of the receivable is appropriately stated due to insufficient appropriate evidence of the fair value of sales consideration receivable. We are also unable to determine if impairment on this receivable is required as management has not performed an impairment assessment in accordance with IAS 39 Financial Instrument: Recognition and Measurement.

We are not able to give an opinion on the current year's financial statements because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

### (xii) Unaudited financial information of component

We were unable to obtain audit evidence about the financial information of a subsidiary that represents over 17% of the Group's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements.

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## Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and the Company'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 management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

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

Our responsibility is to conduct an audit of the consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Singapore and Hong Kong, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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Dated: 3 April 2018

# Notes to the Financial Statements

for the financial year ended 31 December 2017

## 2(a) Going concern

For the financial year ended 31 December 2017, the Group incurred net losses and had net operating cash outflows of HK\$7,194,000 (2016 - HK\$21,706,000) and HK\$21,704,000 (2016 - HK\$13,520,000), respectively.

These matters indicate the existence of a material uncertainty which cast a significant doubt on the Group's and the Company's ability to continue as going concern.

Notwithstanding the above, management believes that the Group and the Company will have sufficient resources to continue in operation for the foreseeable future after taking into consideration the following:

- (i) As at 31 December 2017, the Group had net current assets and net assets of HK\$63,422,000 (2016 - HK\$47,171,000) and HK\$41,905,000 (2016 - HK\$36,256,000), respectively, while the Company had net current assets and net assets of HK\$59,311,000 (2016 - HK\$50,942,000) and HK\$37,740,000 (2016 - HK\$30,819,000), respectively.
- (ii) Implementation of cost containment measures and working capital management to generate sufficient cash flows from operations.

Accordingly, the directors consider it appropriate that these financial statements are prepared on a going concern basis.

## Notes to the Financial Statements

for the financial year ended 31 December 2017

**3 Intangible assets**

	2017 HK\$'000	2016 HK\$'000
The Group		
Goodwill (Note 3(a))	-	-
Membership (Note 3(b))	-	600
	-	600

**3(a) Goodwill**

	2017 HK\$'000	2016 HK\$'000
The Group		
At 1 January	-	413
Acquisition of subsidiaries (Note 5)	-	239
Impairment of goodwill (Note 18)	-	(652)
At 31 December	-	-

For the purpose of impairment testing, goodwill is allocated to the cash-generating units ("CGUs") identified as follows:

	2017 HK\$'000	2016 HK\$'000
The Group		
Nickel ore CGU	537	537
Financing activities CGU	115	115
Impairment of goodwill	(652)	(652)
	-	-

**Impairment testing for goodwill****2016**

Goodwill arose from the acquisition of an additional 34% of the equity interest in PT Global Linker Indonesia resulting in control (Note 5(a)), and 70% of the equity interest in CCI Financial Services Limited (Note 5(b)).

For impairment testing of the nickel ore CGU and financial services CGU, management had determined the recoverable amounts of the two CGUs using value-in-use calculations based on negative cash flow projections estimated by management, having regard to the actual operating cash outflows incurred by the two CGUs for the current financial year. Consequently, the goodwill pertaining to the two CGUs was fully impaired in 2016.

# Notes to the Financial Statements

for the financial year ended 31 December 2017

## 3 Intangible assets (Cont'd)

### 3(b) Membership

Membership relates to membership subscription to credit information bureau services acquired in a business combination during the year ended 31 December 2016 (Note 5(b)). No amortisation had been provided in the financial statements for the year ended 31 December 2016.

During the financial year ended 31 December 2017, the management did not use the membership facilities such as credit checks due to the nature of businesses of the Group's clients, the management is of the view that the value of the membership is limited to the Group. Accordingly, the Group has written off the cost of the membership subscription.

The Group	2017 HK\$'000	2016 HK\$'000
At 1 January	600	-
Acquisition of subsidiaries (Note 5)	-	600
Membership written off	(600)	-
At 31 December	-	600

## Notes to the Financial Statements

for the financial year ended 31 December 2017

## 5 Subsidiaries (Cont'd)

**Disposal of subsidiaries**

- (a) In June 2017, the Group disposed of the 100% equity interest of Joyas Group Limited and its subsidiaries "the Disposal Group" to the purchaser, namely Lam Kam Yin. Please refer to the Company's announcement with respect to the Proposed Disposal of JGL dated 25 May 2017.

No revenue and expenses from metal gift products and jewellery products were accounted for the current financial year as indicated under the Sale and Purchase Agreement between the Company and the purchaser of the Disposal Group, the purchaser shall be entitled to all income and responsible for all expenses of the Disposal Group on or after 1 January 2017. Accordingly, the Disposal Group was de-consolidated from the Group on 1 January 2017. Please refer to the Company's announcement with respect to the Proposed Disposal of JGL dated 25 May 2017.

The sales consideration for the disposal was HK\$15,000,000 receivable in three tranches of cash and the breakdown is as follows:

1. First tranche of HK\$3,000,000 in cash which has been received on 5 July 2017;
2. Second tranche of HK\$6,000,000 in cash due on 12<sup>th</sup> month after the completion date of the disposal; and
3. Third tranche of HK\$6,000,000 in cash due on 18<sup>th</sup> month after the completion date of the disposal.

The carrying amounts of identifiable assets and liabilities of the Disposal Group as at 1 January 2017 were:

	2017 HK\$'000
Property, plant and equipment	8,526
Inventories	7,044
Trade and other receivables	17,139
Cash and bank balances	5,917
Borrowings	(4,302)
Trade and other payables	(31,254)
Capital contribution reserve	54
Non-controlling interest	10,611
<b>Net assets</b>	<b>13,735</b>
Gain on disposal	1,265
<b>Total consideration, to be satisfied in cash</b>	<b>15,000</b>
Satisfied by:	
Cash	3,000
Consideration receivable (Note 7)	12,000
	<b>15,000</b>
Analysis of net flow of cash and bank balances arising on disposal:	
Cash consideration received	3,000
Cash and bank balances on the Disposal Group	(5,917)
<b>Net cash outflow on the Disposal Group</b>	<b>(2,917)</b>