

# Independent 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 2018, 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 2017

The independent auditor's report on the consolidated financial statements for the previous year ended 31 December 2017 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
- e. Valuation of intangible asset
- f. Valuation of property, plant and equipment
- g. Purchase price allocation and impairment of goodwill for financing and nickel ore businesses
- h. Deposits paid to a supplier
- i. Going concern
- j. Related party transactions and balances
- k. Disposal of subsidiaries of JGL Group
- l. Unaudited financial information of component

Items that have a continuing relevance to the 2018 financial statements are further elaborated below:

- (i) Comparative figure

Our opinion on the current year's financial statements is also modified because of the possible effects of the matters described in the basis for disclaimer of opinion paragraphs on the financial statements for the financial year ended 31 December 2017 on the comparability of the current period's figures and the comparative figures.

- (ii) Deposits paid to a supplier and trade payable owing to the supplier

Included in trade and other receivables of the consolidated statement of financial position as at 31 December 2018 and 31 December 2017 are deposits of HK\$24,377,000 (2017: HK\$24,377,000) paid to a supplier and trade payable of HK\$10,531,000 (2017: HK\$10,531,000) to the same 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 are unable to obtain sufficient appropriate audit evidence on the recoverability of the deposits paid to the supplier. In addition, we are unable to satisfactorily perform confirmation procedures. Consequently, we are unable to satisfy ourselves as to the appropriateness of the carrying amount of the deposits paid to the supplier and payable to the supplier as at 31 December 2018.

The auditors' report of the Group for the financial year ended 31 December 2017 included a disclaimer on deposits paid to supplier.

- (iii) Going concern

We draw attention to Note 2(a) to the financial statements. For the financial year ended 31 December 2018, the Group incurred net losses and had net operating cash inflow/outflows of HK\$4,442,000 (2017 - HK\$7,194,000) and HK\$923,000 (inflow) (2017 - HK\$21,704,000 (outflow)), respectively. The Group is in loss making position continuously for the last three years. In addition, the Group and Company has a convertible bond due in February 2020 of S\$3,503,459 (HK\$21,187,000).

These matters may 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, as well as recovery of receivables recorded by the Group and Company.

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.

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

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

In 2017, the independent auditor's report on the consolidated financial statements of the Group and the financial position of the Company for the financial year ended 31 December 2017 included disclaimer of opinion on the disposal of subsidiaries of Joyas Group Limited. The Group had 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. The independent auditors were not provided with adequate supporting information to ascertain if the control over JGL Group was lost on 1 January 2017 or if control was lost. 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.

In 2017, included in trade and other receivables of the Company and the Group was an amount of HK\$12,000,000 relating to the sales consideration receivable from the disposal of JGL. The auditors were unable to determine if the gross carrying amount of the receivable was appropriately stated due to insufficient appropriate evidence of the fair value of sales consideration receivable. The auditors were also unable to determine if impairment on this receivable was required as management had not performed an impairment assessment in accordance with IAS 39 Financial Instrument: Recognition and Measurement.

In view of the matters described above, we were unable to determine whether the opening balance of sales consideration receivable amounting to HK\$12,000,000 of the Group as at 1 January 2018 were fairly presented. Since the opening balance as at 1 January 2018 entered into the determination of the financial performance, changes in equity and cash flows of the Group for the financial year ended 31 December 2018, we were unable to determine whether adjustments might have been found necessary in respect of the consolidated financial statements of the Group for the financial year ended 31 December 2018.

Our opinion on the current year's consolidated financial statements of the Group and the balance sheet of the Company is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

### (v) Unaudited financial information and impairment of amount due from an associate

As disclosed in Note 3, the Group recorded an investment in associate of HK\$ 2,935,000. As described in Note 3, the component was a subsidiary of the Group until October 2018 and subsequently deconsolidated and accounted for as an associate following the disposal of controlling shareholding of the Group. The financial statement of the associate, previously a subsidiary, for the year ended 31 December 2017 was unaudited as the auditors were unable to obtain audit evidence about the financial information of the subsidiary for the financial year ended 31 December 2017. The auditors' report of the Group mentioned that the possible effects of this inability to obtain sufficient appropriate audit evidence were deemed to be both material and pervasive to the consolidated financial statements. Since the opening balance as at 1 January 2018 entered into the determination of the financial performance, changes in equity and cash flows of the associate for the financial year ended 31 December 2018, we were unable to determine whether adjustments might have been found necessary in respect of the consolidated financial statements of the Group for the financial year ended 31 December 2018. In addition, we were not able to obtain sufficient appropriate evidence that certain balances recorded by the associate in its balance sheet as at 31 December 2018 are not materially misstated. Accordingly, we are not able to obtain reasonable assurance that the recorded investment in associate of HK\$ 2,935,000 is not misstated.

As disclosed in Note 6, the Group recorded an amount due from associate of HK\$ 10,672,000 as at 31 December 2018. We are not able to obtain sufficient appropriate evidence that the amount due from associate is recoverable.

### (vi) Impairment of amount due from subsidiaries

Included in trade and other receivables of the statement of financial position of the Company as at 31 December 2018 is an amount of HK\$50,089,000 relating to amount due from subsidiaries. We are unable to determine if impairment on this receivable is required as we are unable to assess the feasibility of management's plans for future recovery of this amount due to insufficient appropriate evidence.

# Notes to the Financial Statements

for the financial year ended 31 December 2018

## 2(a) Going concern

For the financial year ended 31 December 2018, the Group incurred net losses and had net operating cash inflow/outflows of HK\$4,442,000 (2017 - HK\$7,194,000) and HK\$923,000 (inflow) (2017 - HK\$21,704,000 (outflow) ), respectively. The Group is in loss making position continuously for the last three years. In addition, the Group and the Company has a convertible bond due in February 2020 of S\$3,503,459 (HK\$21,187,000).

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 concerns.

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 2018, the Group had net current assets and net assets of HK\$53,988,000 (2017 - HK\$63,422,000) and HK\$35,722,000 (2017 - HK\$41,905,000), respectively, while the Company had net current assets and net assets of HK\$54,744,000 (2017 - HK\$59,311,000) and HK\$33,546,000 (2017 - HK\$37,740,000), respectively.
- (ii) Financing business is profitable and operating losses are mainly due to Group's overheads which are relatively limited.
- (iii) Receipt of sales consideration receivables relating to disposal of subsidiaries by the Group during the previous year ended 31 December 2017.

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 2018

### 3 Investment in an associate

	2018 HK\$'000
The Group	
Balance on 10.10.2018	2,632
Share of result for the period	169
Share of other comprehensive income for the period	134
	<b>2,935</b>

In October 2018, the Group had, through the Company's 70%-owned subsidiary, Hong Kong Silver Basic Group Limited "HK Silver", disposed of 1,954,350 ordinary shares, representing 15% of the issued and paid-up share capital of PT Global Linker Indonesia "PT Global" to Fill Stone International Mining Corporation, an independent third party. Please refer to the Company's announcement with respect to the Disposal of Shares in PT Global Linker Indonesia ("**Disposal of Shares in PT Global**") dated 28 January 2019.

Following the completion of the Disposal, Hong Kong Silver Basic Group Limited's shareholding in P. T. Global Linker has reduced to 49%. Accordingly, P. T. Global Linker ceased to be a subsidiary of the Group and was accounted for as an associated company of the Group.

Name of associate	Country of incorporation	Ownership interest held by the Group		Principal activities
		2018 %	2017 %	
<b>Indirectly owned</b>				
PT Global Linker Indonesia * ("PT Global")	Indonesia	49	–	Inactive

\* Management accounts used for consolidated and equity accounting

## Notes to the Financial Statements

*for the financial year ended 31 December 2018***3 Investment in an associate (Cont'd)**

Summary financial information of an associate extracted from its management accounts from 10 October 2018 to 31 December 2018

	2018 HK\$'000
Revenue	–
Loss after tax	343
Other comprehensive income	274
<b>Total comprehensive income</b>	<b>617</b>
Non-current assets	27
Current assets	19,929
Current liabilities	(13,965)
<b>Net assets</b>	<b>5,991</b>
Group's share net assets based on proportion of ownership interest	2,935
<b>Carrying amount of investment</b>	<b>2,935</b>

## Notes to the Financial Statements

for the financial year ended 31 December 2018

## 6 Trade and other receivables

	The Group		The Company	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Amount due from subsidiaries (non-trade)	–	–	50,089	46,887
Amount due from a related party (non-trade) <sup>(1)</sup>	–	16,306	–	–
Amount due from an associate	10,672	–	–	–
Deposits	19	19	19	19
Sales consideration receivables <sup>(2)</sup>	4,500	12,000	4,500	12,000
Loans and advances	18,500	20,780	–	–
Interest receivable	350	347	–	–
Other receivables	68	395	11	11
Deposits paid to a supplier <sup>(3)</sup>	24,377	24,377	–	–
Financial assets	58,486	74,224	54,619	58,917
Prepayments	191	186	190	186
Prepaid taxes	–	74	–	–
<b>Total trade and other receivables</b>	<b>58,677</b>	<b>74,484</b>	<b>54,809</b>	<b>59,103</b>

<sup>(1)</sup> The non-trade amount due from a related party relates to a loan given to a key management personnel of the Group during the previous financial year. The loan was unsecured, interest-free and repayable on demand (Note 22). No amount was recorded at the Group level as the amount has been deconsolidated following the Disposal of Shares in PT Global.

<sup>(2)</sup> The sales considerations receivables relates to the disposal of subsidiaries by the Group during the previous year ended 31 December 2017 (Note 5).

<sup>(3)</sup> The deposits paid for purchases of nickel ore are unsecured and interest-free. The supplier is a related party (Note 22).

# Notes to the Financial Statements

for the financial year ended 31 December 2018

## 6 Trade and other receivables (Cont'd)

### Loans and advances

Loan and receivables are non-derivate financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the reporting date which are presented as non-current assets.

The Group has offered and granted five loans (2017 – six) via its Hong Kong subsidiary, CCIJG Financial (registered money lender in Hong Kong). Total undrawn facility amount at the end of financial year ended 31 December 2018 was HK\$8,500,000. Any drawdown is subject to management approval.

Country	Nature of business of borrowers	Maturity date	Interest rate		Principal amount of the loan	
			2018	2017	2018	2017
			%	%	HK\$'000	HK\$'000
<u>At amortised cost:</u>						
British Virgin Islands	Investment company	Revolving in nature	12	12	500	5,000
Hong Kong	Purchasing of consumer debt folio & manage and recover debt	Revolving in nature	12	12	5,000 <sup>(2)</sup>	5,000
Hong Kong	Investment company	1 year from draw down	–	9	–	5,000
United Arab Emirates "UAE"	Sales & manufacturing of steel framing machinery for construction building	1 year from draw down	–	24	–	780
Hong Kong	Personal	1 months from draw down	–	24	–	5,000
Hong Kong	Personal	Revolving in nature	12	–	7,500	–
Hong Kong	Investment company	Revolving in nature	12	–	5,500	–
					<b>18,500</b>	<b>20,780</b>
<u>At fair value through profit or loss:</u>						
Hong Kong	Investment company	<sup>(3)</sup>	12	12	2,584 <sup>(1)</sup>	2,000
					<b>21,084</b>	<b>22,780</b>
			<b>2018</b>	<b>2017</b>		
The Group			<b>HK\$'000</b>	<b>HK\$'000</b>		
Amount repayable within one year			<b>21,084</b>	<b>22,780</b>		
			<b>2018</b>	<b>2017</b>		
The Group			<b>HK\$'000</b>	<b>HK\$'000</b>		
USD			–	780		
HKD			<b>21,084</b>	<b>22,000</b>		
Total loans and advances			<b>21,084</b>	<b>22,780</b>		

Subsequent to the reporting date, the Group has received the repayments of HK\$7,500,000 (2017 – HK\$12,780,000) from the borrowers.

<sup>(1)</sup> This loan was classified as fair value through profit or loss in accordance with IFRS9 and fair value gain of HK\$584,000 was recorded in "Other income" during the financial year. The fair value of the loan is HK\$2,584,000 as at 31 December 2018 (Note 7).

<sup>(2)</sup> This relates to loan to a related party in which a subsidiary's director is also a deemed shareholder of the entity (Note 22).

<sup>(3)</sup> HK\$2,000,000 is repayable on demand while HK\$584,000 is expected to be repaid in May 2019.