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KADER HOLDINGS COMPANY LIMITED
開達集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 180)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors of Kader Holdings Company Limited (the “Company”) announces that the results of the Company and its subsidiaries (together referred to as the “Group”) for the year ended 31 December 2018 together with comparative figures for the year 2017 are summarised as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue	3	663,688	823,451
Other income	4	2,169	26,078
Changes in inventories of finished goods and work in progress		(10,941)	(33,328)
Cost of purchase of finished goods		(17,595)	(24,673)
Raw materials and consumables used		(184,566)	(204,653)
Staff costs	5(b)	(220,355)	(232,977)
Depreciation	5(d)	(24,474)	(28,483)
Other operating expenses	5(c)	(152,821)	(160,195)
Profit from operations		55,105	165,220
Finance costs	5(a)	(7,781)	(7,152)
Share of profits less losses of associates		25,593	10,323
Surplus on revaluation of investment properties		142,888	186,372
Profit before taxation	5	215,805	354,763
Income tax expense	6	(34,401)	(26,956)
Profit for the year		181,404	327,807

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*
For the year ended 31 December 2018

	<i>Note</i>	2018 HK\$'000	2017 HK\$'000
Attributable to:			
Equity shareholders of the Company		181,750	321,748
Non-controlling interests		(346)	6,059
		<u>181,404</u>	<u>327,807</u>
Profit for the year			
		<u>181,404</u>	<u>327,807</u>
Earnings per share			
Basic	7(a)	19.12¢	33.85¢
Diluted	7(b)	19.12¢	33.85¢

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit for the year		181,404	327,807
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, net of HK\$Nil tax		2,407	9,314
Available-for-sale securities, net of HK\$Nil tax:			
– changes in fair value during the year		–	5,558
– reclassification adjustments for amounts transferred to profit or loss	4	–	(349)
Total comprehensive income for the year		<u>183,811</u>	<u>342,330</u>
Attributable to:			
Equity shareholders of the Company		184,286	336,089
Non-controlling interests		(475)	6,241
Total comprehensive income for the year		<u>183,811</u>	<u>342,330</u>

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets			
Investment properties		1,945,733	1,802,845
Other property, plant and equipment		<u>145,327</u>	<u>123,392</u>
		2,091,060	1,926,237
Intangible assets		399	1,041
Interest in associates		89,248	64,052
Other financial assets		13,941	28,828
Deposits and prepayments		14,708	16,151
Deferred tax assets		<u>6,494</u>	<u>11,633</u>
		<u>2,215,850</u>	<u>2,047,942</u>
Current assets			
Other financial assets		5,000	–
Trading securities		10,804	–
Inventories	8	260,447	274,695
Current tax recoverable		1,021	62
Loans to an associate		18,177	25,874
Trade and other receivables	9	127,169	173,752
Cash and cash equivalents		<u>95,886</u>	<u>91,591</u>
		<u>518,504</u>	<u>565,974</u>
Current liabilities			
Trade and other payables and contract liabilities	10	116,194	129,609
Bank loans		267,937	279,795
Current tax payable		<u>26,695</u>	<u>41,724</u>
		<u>410,826</u>	<u>451,128</u>
Net current assets		<u>107,678</u>	<u>114,846</u>
Total assets less current liabilities carried forward		<u>2,323,528</u>	<u>2,162,788</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)**At 31 December 2018*

	<i>Note</i>	2018 HK\$'000	2017 HK\$'000
Total assets less current liabilities brought forward		2,323,528	2,162,788
Non-current liabilities			
Bank loans		–	3,118
Deferred rental expenses		3,706	3,767
Rental deposits		1,025	5,673
Deferred tax liabilities		23,603	19,905
Accrued employee benefits		92	22
		28,426	32,485
NET ASSETS		2,295,102	2,130,303
CAPITAL AND RESERVES	<i>11</i>		
Share capital		95,059	95,059
Reserves		2,197,581	2,032,307
Total equity attributable to equity shareholders of the Company		2,292,640	2,127,366
Non-controlling interests		2,462	2,937
TOTAL EQUITY		2,295,102	2,130,303

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

This announcement does not comprise the consolidated financial statements for the year ended 31 December 2018 but the information herein has been extracted from the draft consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interest in associates.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that investment properties and debts and equity instruments are stated at their fair values.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- (i) HKFRS 9, *Financial instruments*
- (ii) HKFRS 15, *Revenue from contracts with customers*
- (iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits and reserves at 1 January 2018.

	<i>HK\$'000</i>
Retained profits	
Transferred from fair value reserve relating to financial assets now measured at fair value through profit or loss ("FVPL")	<u>5,102</u>
Net increase in retained profits at 1 January 2018	<u><u>5,102</u></u>
	<i>HK\$'000</i>
Fair value reserve	
Transferred to retained profits relating to financial assets now measured at FVPL	<u>(5,102)</u>
Net decrease in fair value reserve at 1 January 2018	<u><u>(5,102)</u></u>

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) *Classification of financial assets and financial liabilities*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

2. CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) HKFRS 9, *Financial instruments (continued)*

(i) *Classification of financial assets and financial liabilities (continued)*

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

2. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9, *Financial instruments* (continued)

(i) *Classification of financial assets and financial liabilities* (continued)

	HKAS 39 carrying amount at 31 December 2017 HK\$'000	Impact on initial application of HKFRS 9 reclassification HK\$'000	HKFRS 9 carrying amount at 1 January 2018 HK\$'000
Financial assets classified as available-for-sale under HKAS 39 (<i>Note</i>)	<u>28,828</u>	<u>(28,828)</u>	<u>–</u>
Financial assets carried at FVPL			
– Units in bond funds	–	3,096	3,096
– Equity securities not held for trading	<u>–</u>	<u>25,732</u>	<u>25,732</u>
	<u>–</u>	<u>28,828</u>	<u>28,828</u>

Note: Under HKAS 39, units in bond funds and equity securities not held for trading were classified as available-for-sale financial assets. They are classified as at FVPL under HKFRS 9.

(ii) *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. Application of the expected credit loss model results in earlier recognition of credit losses. Adoption of HKFRS 9 would not have a material impact on the results and financial position of the Group.

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

Under HKAS 18, revenue from sale of goods was generally recognised when the risks and rewards of ownership had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. Adoption of the new revenue standard does not have significant impact on how the Group recognises its revenue.

2. CHANGES IN ACCOUNTING POLICIES (continued)

(c) HKFRS 15, Revenue from contracts with customers (continued)

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

To reflect these changes in presentation, the Group has reclassified forward sales deposits received amounting to HK\$6,625,000 from trade and other payables to contract liabilities at 1 January 2018.

3. REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

Toys and model trains: The manufacture and sale of plastic, electronic and stuffed toys and model trains. These products are manufactured in the Group's manufacturing facilities located primarily in Mainland China.

Property investment: The leasing of office premises and industrial building to generate rental income and to gain from the appreciation in the properties' value in the long term.

Investment holding: The investment in securities.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by significant category of revenue is as follows:

	2018 HK\$'000	2017 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
– Sales of goods	612,282	771,048
Revenue from other sources		
– Gross rentals from investment properties	51,406	52,403
	663,688	823,451

3. REVENUE AND SEGMENT REPORTING *(continued)*

(a) **Disaggregation of revenue** *(continued)*

The Group's customer base is diversified and includes one (2017: one) customer with whom transactions have exceeded 10% of the Group's revenue. In 2018, revenue from sales of toys and model trains to this customer (2017: one), including sales to entities which are known to the Group to be under common control of this customer, amounted to approximately HK\$336,077,000 (2017: HK\$438,576,000) and arose in the North America (2017: North America) geographical region in which the toys and model trains division is active.

(b) **Segment results, assets and liabilities**

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of intangible assets, interest in associates, other financial assets, trading securities, deferred tax assets, current tax recoverable, cash and cash equivalents, loans to an associate and other corporate assets. Segment liabilities include all liabilities with the exception of current tax payable, deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

3. REVENUE AND SEGMENT REPORTING (continued)

(b) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	Toys and model trains		Property investment		Investment holding		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	612,282	771,048	51,406	52,403	-	-	663,688	823,451
Inter-segment revenue	-	-	1,195	1,195	-	-	1,195	1,195
Reportable segment revenue	612,282	771,048	52,601	53,598	-	-	664,883	824,646
Reportable segment profit/(loss) (adjusted EBITDA)	37,872	128,781	40,566	44,951	(385)	(4,746)	78,053	168,986
Interest income	76	519	26	-	1,739	1,515	1,841	2,034
Interest expenses	(7,781)	(7,152)	-	-	-	-	(7,781)	(7,152)
Depreciation and amortisation for the year	(25,064)	(29,175)	(53)	(6)	-	(34)	(25,117)	(29,215)
Impairment of property, plant and equipment	-	(3,084)	(317)	(49)	-	-	(317)	(3,133)
Reportable segment assets	544,628	557,332	1,960,760	1,803,411	351,417	295,272	2,856,805	2,656,015
Additions to non-current segment assets during the year	52,251	36,906	-	-	-	-	52,251	36,906
Reportable segment liabilities	711,044	655,577	34,385	25,063	6,946	6,365	752,375	687,005

3. REVENUE AND SEGMENT REPORTING (continued)

(c) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2018 HK\$'000	2017 HK\$'000
Revenue		
Reportable segment revenue	664,883	824,646
Elimination of inter-segment revenue	<u>(1,195)</u>	<u>(1,195)</u>
Consolidated revenue	<u><u>663,688</u></u>	<u><u>823,451</u></u>
Profit		
Reportable segment profit	78,053	168,986
Elimination of inter-segment profit	<u>–</u>	<u>–</u>
Reportable segment profit derived from the Group's external customers	78,053	168,986
Other income	2,169	26,078
Depreciation and amortisation	(25,117)	(29,215)
Finance costs	(7,781)	(7,152)
Share of profits less losses of associates	25,593	10,323
Surplus on revaluation of investment properties	142,888	186,372
Unallocated head office and corporate expenses	<u>–</u>	<u>(629)</u>
Consolidated profit before taxation	<u><u>215,805</u></u>	<u><u>354,763</u></u>
Assets		
Reportable segment assets	2,856,805	2,656,015
Elimination of inter-segment receivables	<u>(363,421)</u>	<u>(265,180)</u>
	2,493,384	2,390,835
Intangible assets	399	1,041
Interest in associates	89,248	64,052
Loans to an associate	18,177	25,874
Other financial assets	18,941	28,828
Trading securities	10,804	–
Current tax recoverable	1,021	62
Deferred tax assets	6,494	11,633
Cash and cash equivalents	<u>95,886</u>	<u>91,591</u>
Consolidated total assets	<u><u>2,734,354</u></u>	<u><u>2,613,916</u></u>
Liabilities		
Reportable segment liabilities	752,375	687,005
Elimination of inter-segment payables	<u>(363,421)</u>	<u>(265,180)</u>
	388,954	421,825
Current tax payable	26,695	41,724
Deferred tax liabilities	23,603	19,905
Unallocated head office and corporate liabilities	<u>–</u>	<u>159</u>
Consolidated total liabilities	<u><u>439,252</u></u>	<u><u>483,613</u></u>

3. REVENUE AND SEGMENT REPORTING *(continued)*

(d) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, non-current deposits and prepayments and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and the location of operations, in the case of interest in associates.

	Revenue from external customers		Specified non-current assets	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Hong Kong (place of domicile)	<u>52,145</u>	<u>60,139</u>	<u>2,048,111</u>	<u>1,863,574</u>
Mainland China	1,608	3,783	36,288	42,906
North America	463,485	587,526	95,169	87,083
Europe	142,295	171,884	10,443	13,918
Others	<u>4,155</u>	<u>119</u>	<u>5,404</u>	<u>–</u>
	<u>611,543</u>	<u>763,312</u>	<u>147,304</u>	<u>143,907</u>
	<u>663,688</u>	<u>823,451</u>	<u>2,195,415</u>	<u>2,007,481</u>

4. OTHER INCOME

	2018 HK\$'000	2017 HK\$'000 (Note)
Interest income from loans to an associate	1,393	1,367
Interest income from available-for-sale debt securities	–	148
Other interest income	<u>448</u>	<u>519</u>
	1,841	2,034
Air conditioning, management and maintenance service charges from tenants	6,705	6,245
Material charges	320	317
Written back of trade and other payables	–	13,139
Net gain on disposal of property, plant and equipment	479	1,078
Net exchange loss	(8,173)	(642)
Net realised and unrealised loss on trading securities	(1,832)	–
Net realised and unrealised loss on investments not held for trading	(2,972)	–
Available-for-sale equity securities: reclassified from equity on disposal	–	349
Others	<u>5,801</u>	<u>3,558</u>
	<u>2,169</u>	<u>26,078</u>

Note: Under the transition method chosen, the Group has not restated comparatives upon the initial adoption of HKFRS 9. See note 2.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(a) Finance costs		
Interest on bank loans and other borrowings	<u>7,781</u>	<u>7,152</u>
(b) Staff costs		
Salaries, wages and other benefits	199,378	214,555
Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK\$Nil (2017: HK\$3,000)	<u>20,977</u>	<u>18,422</u>
	<u>220,355</u>	<u>232,977</u>
(c) Other operating expenses		
Other operating expenses for the year included:		
Amortisation of intangible assets	643	732
Addition/(reversal) of impairment losses of		
– property, plant and equipment	317	3,133
– trade debtors	(882)	1,659
Auditors' remuneration		
– audit services	4,483	4,274
– tax services	66	857
– other services	502	–
Advertising and promotion	14,193	13,572
Fuel, electricity and water	17,917	16,181
Tools and consumables	5,374	8,939
Repair and maintenance	7,208	7,891
Subcontracting fee	25,927	21,667
Transportation and travelling	<u>13,251</u>	<u>12,560</u>
(d) Other items		
Depreciation		
– owned assets	24,474	28,483
Operating lease charges (included in staff cost and other operating expenses)		
– rental of land and buildings	23,256	20,545
– other rentals	119	130
Cost of inventories	417,153	484,390
Rental receivable from investment properties less direct outgoings of HK\$4,551,000 (2017: HK\$4,209,000)	<u>(46,855)</u>	<u>(48,194)</u>

5. PROFIT BEFORE TAXATION (continued)

(d) Other items (continued)

Cost of inventories includes HK\$131,492,000 (2017: HK\$144,993,000) relating to staff costs, depreciation charges, impairment loss in respect of property, plant and equipment and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the consolidated statement of profit or loss for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2018 HK\$'000	2017 HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	17,346	25,690
Over-provision in respect of prior years	<u>(1,288)</u>	<u>(2,145)</u>
	<u>16,058</u>	<u>23,545</u>
Current tax – Outside Hong Kong		
Provision for the year	9,074	8,492
Under/(over)-provision in respect of prior years	<u>432</u>	<u>(1,568)</u>
	<u>9,506</u>	<u>6,924</u>
Deferred tax		
Origination and reversal of temporary differences	<u>8,837</u>	<u>(3,513)</u>
	<u>34,401</u>	<u>26,956</u>

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

The Corporate Income Tax (“CIT”) rate applicable to subsidiaries registered in the People’s Republic of China (“PRC”) is 25% (2017: 25%).

Taxation for other subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The Corporation tax rate applicable to the Group’s operations in the United Kingdom is 19% (2017: 19%).

During the year ended 31 December 2018, the United States Government announced a reduction in the corporation tax rate applicable to the Group’s operations in the United States (the “US”) from 35% to 21%. The reduction has been taken into account in the preparation of the Group’s financial statements. Accordingly, the deferred tax balances related to the Group’s operations in the US as at 31 December 2018 were calculated using a tax rate of 21% (2017: 35%).

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit before taxation	<u>215,805</u>	<u>354,763</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	27,774	49,633
Tax effect of non-deductible expenses	29,913	20,480
Tax effect of non-taxable income	(26,160)	(40,505)
Tax effect of previously unrecognised tax losses utilised	(271)	(14)
Tax effect of unused tax losses not recognised	4,001	1,075
Over-provision in prior years	<u>(856)</u>	<u>(3,713)</u>
Actual tax expense	<u>34,401</u>	<u>26,956</u>

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$181,750,000 (2017: HK\$321,748,000) and the weighted average of 950,588,000 ordinary shares (2017: 950,588,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The Company did not have dilutive potential ordinary shares outstanding during both 2018 and 2017. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both 2018 and 2017.

8. INVENTORIES

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Carrying amount of inventories sold	426,347	475,359
Write down of inventories	2,708	9,031
Reversal of write-down of inventories	<u>(11,902)</u>	<u>–</u>
	<u>417,153</u>	<u>484,390</u>

The reversal of write-down of inventories made in the prior year arose upon subsequent sale of these inventories.

9. TRADE AND OTHER RECEIVABLES

As at 31 December 2018, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 1 month	37,460	95,557
1 to 3 months	48,832	42,360
3 to 12 months	7,717	4,097
Over 12 months	<u>1,225</u>	<u>1,008</u>
	<u><u>95,234</u></u>	<u><u>143,022</u></u>

10. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Included in trade and other payables and contract liabilities are trade creditors with the following ageing analysis, based on the invoice date, as of the end of reporting period:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 1 month	13,573	16,389
Over 1 month but within 3 months	14,517	14,963
Over 3 months but within 6 months	4,192	633
Over 6 months	<u>904</u>	<u>979</u>
	<u><u>33,186</u></u>	<u><u>32,964</u></u>

11. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) *Dividends payable to equity shareholders of the Company attributable to the year*

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Final dividend proposed after the end of the reporting period of HK1.0 cent per ordinary share (2017: HK2.0 cents per ordinary share)	<u><u>9,506</u></u>	<u><u>19,012</u></u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

11. CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(a) Dividends *(continued)*

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.0 cents per share (2017: HK1.5 cents per share)	<u>19,012</u>	<u>14,259</u>

(b) Issued share capital

	2018		2017	
	<i>Number of shares '000</i>	<i>HK\$'000</i>	<i>Number of shares '000</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Ordinary shares, issued and fully paid:				
At the beginning and the end of the year	<u>950,588</u>	<u>95,059</u>	<u>950,588</u>	<u>95,059</u>

(c) Share premium

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda.

BUSINESS REVIEW

The keen competition and the Toys“R”Us issue have negative impact on the results of the Group for 2018. To cope with the unfavourable conditions, the Group will explore new sales opportunities, implement various measures to increase efficiency and strengthen the cost control measures.

Toys and Model Trains

For the financial year ended 31 December 2018, the revenue was approximately HK\$612.28 million, representing a decrease of approximately 20.59% as compared to last year.

The Group will continue to manufacture high quality products with competitive prices to sustain its business.

Property Investment

For the financial year ended 31 December 2018, the Group’s rental income amounted to approximately HK\$51.41 million, representing a decrease of approximately 1.90% over the previous year. In addition, the Group recorded valuation gains of approximately HK\$142.89 million on its investment properties for the year, as compared to last year’s valuation gains of approximately HK\$186.37 million.

During the year under review, the occupancy rate of its investment properties is approximately 82% (2017: approximately 83%).

RISKS AND UNCERTAINTIES

The Group’s financial position and results of operations may be affected by a number of risks and uncertainties pertaining to the Group’s businesses. The following are the key risks and uncertainties identified by the Group:

Business Risk

Performance of the Group’s core business will be affected by various factors, including but not limited to economic conditions which would not be mitigated even with strict operational procedures.

Interest Rate Risk

The Group’s interest rate risk arises primarily from bank borrowings. The Group analyses its interest rate exposure on a dynamic basis and manages this risk in a cost-effective manner.

Liquidity risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding. In managing the liquidity risk, the Group monitors the cash flows and will negotiate with banks to increase the banking facilities, if necessary.

Customer risk

The sales to one of the Group's customers represented approximately 55% of the Group's sales in 2018. The Group has endeavoured to diversify its customer base and provided quality products and services to the customers to maintain good relationship with them so as to mitigate the customer risk.

Foreign Exchange Rate Risk

Major assets, liabilities and transactions of the Group are denominated in Hong Kong dollars, United States dollars, Sterling Pounds ("GBP"), Renminbi Yuan ("RMB") and Japanese Yen ("JPY"). As such, the Group faces a certain degree of exchange rate risk mainly arising from GBP, RMB and JPY denominated transactions for which the exchange rate volatility is relatively high.

ENVIRONMENTAL POLICY AND PERFORMANCE

In order to effectively address and manage environmental issues along our production, we have set up the Environmental, Health and Safety System and Environmental Policy. Our Environmental, Health and Safety Committee monitors the Group's overall performance in relation to environmental protection at all of our production facilities by regular inspections. Practical initiatives include waste separation, in-house air emission treatment facility, in-house wastewater treatment facility, energy efficiency enhancement and green office practices.

Looking ahead, we will continually improve our environmental performance by reviewing existing policies and procedures. For more details, please refer to the "Environmental, Social and Governance Report" section in the annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year under review, the Group was not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group.

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is committed to maintaining long-term trusting relationships with its employees, customers and suppliers:

Employees:

We believe employees are the key to our long-term success. We strive to build and maintain a pleasant workplace for all by safeguarding their health and safety, offering competitive remuneration and providing development opportunities. All employees are treated in a fair and equal manner, with no discrimination on any forms of differences that are unrelated to job requirements. We also promote work-life balance through arranging various team-building activities to let our people relax from work and to foster a close bonding among colleagues.

Customers:

We strive to deliver the best experience to our customers and gain their satisfaction by providing high quality and safe products. With our quality management system, we ensure that our products meet our quality standards and customers' requirements. Thorough quality inspections are conducted throughout the entire production cycle, from raw material to final product. Regarding their privacy, we are committed to keeping customer information confidential such that only authorized personnel are permitted to access those data. We are also willing to listen to customers' feedbacks and complaints and make corresponding follow-ups in a timely manner.

Suppliers:

Our suppliers are carefully selected and managed by carrying out qualification assessments and performance appraisals. All potential suppliers are required to provide relevant compliance certificates in order to be qualified on the approved vendor list. In addition to quality considerations, we also consider other factors such as their performances on anti-corruption, occupational health and safety, product safety, labor standards and environmental protection. If necessary, onsite inspections will be conducted to verify suppliers' performance. In case of non-conformities, corrective actions will be requested to improve their performance.

For more details, please refer to the "Environmental, Social and Governance Report" section in the annual report.

FINANCIAL REVIEW

Results

The Board announces that the Group's revenue for the financial year ended 31 December 2018 amounted to approximately HK\$663.69 million, representing a decrease of approximately 19.40% over that reported last year and the profit from operations for 2018 amounted to approximately HK\$55.11 million as compared to last year's profit from operations of approximately HK\$165.22 million. The Group's profit attributable to shareholders for the financial year ended 31 December 2018 was approximately HK\$181.75 million, which included valuation gains on investment properties amounting to approximately HK\$142.89 million, as compared to last year's profit attributable to shareholders of approximately HK\$321.75 million which included valuation gains on investment properties of approximately HK\$186.37 million.

Liquidity and Financial Resources

As at 31 December 2018, the Group's net asset value per share was approximately HK\$2.41 (2017: approximately HK\$2.24). The Group had net current assets of approximately HK\$107.68 million (2017: approximately HK\$114.85 million). Total bank borrowings were approximately HK\$267.94 million (2017: approximately HK\$282.91 million) while the secured total banking facilities were approximately HK\$801.05 million (2017: approximately HK\$789.02 million). Included in total bank borrowings were revolving loans of approximately HK\$195.00 million (2017: approximately HK\$180.83 million) which are intended to be rolled over upon maturity. The Group's financial gearing, based on the total bank borrowings compared to the total equity, was approximately 11.67% (2017: approximately 13.28%). The majority of borrowings are on floating interest rate terms. The Group will negotiate with banks to increase the banking facilities for working capital needs, if necessary.

Capital Structure

During the year, there were no changes in the Company's share capital.

Charges on Group Assets

As at 31 December 2018, investment properties and certain leasehold land and buildings of the Group with a net book value of approximately HK\$1,856.48 million (2017: approximately HK\$1,580.60 million) were mortgaged to various banks to secure the banking facilities granted to the Group.

Material Acquisitions and Disposals

There were no material acquisitions and disposals during the year ended 31 December 2018.

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed 1,678 (2017: 2,052) full time management, administrative and production staff in Hong Kong Special Administrative Region (“HKSAR”), Mainland China, the United States and Europe. The Group has seasonal fluctuations in the number of workers employed in its production plants while the number of management and administrative staff remains stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

PROSPECTS

The economic outlook for the year ahead is uncertain due to the United States-China trade war. The Group will continue to raise production efficiency and strengthen the cost control measures in order to maintain its competitive position. In addition, the Group has the intention to revitalize the investment properties, and has commenced initial procedures and submitted the relevant documents to the Government of the HKSAR. The revitalization will enhance the Group’s source of revenue and profitability.

DIVIDEND

The Directors recommend the payment of a final dividend of HK1.0 cent per ordinary share (2017: HK2.0 cents per ordinary share) for the year ended 31 December 2018 payable on 27 June 2019 to those shareholders whose names appear on the Register of Members of the Company as at the close of business on 20 June 2019 subject to the approval of the Company’s shareholders at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019, both days inclusive, during which period no transfers of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 27 May 2019.

The register of members of the Company will be closed from Thursday, 13 June 2019 to Thursday, 20 June 2019, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 12 June 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE PRACTICES

The Board sets its corporate governance procedure and duties pursuant to the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and it accordingly reviews and monitors the training and continuous development in profession of directors and senior management and its policies and practices in compliance with relevant laws and regulatory requirements. The Company has adopted and applied a corporate governance policy. During the reporting year, the Group has complied with all code provisions set out in the CG Code, except for the deviation from CG Code A.2.1 as described below:

Under CG Code A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Kenneth Ting Woo-shou ("Mr. Ting") has the combined role of Chairman and Managing Director. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as non-executive directors and independent non-executive directors ("INEDs") form the majority of the Board, with six out of nine of the directors of the Company being non-executive directors and INEDs. The Board believes the appointment of Mr. Ting to the posts of Chairman and Managing Director is beneficial to the Group as he has considerable industry experience.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its model code for securities transactions by the Company's directors and relevant employees who are or may be in possession of unpublished inside information. Based on specific enquiries made, all directors have confirmed that they have complied with the Model Code throughout the year.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the key accounting policies and discussed auditing, internal controls and financial reporting matters, including a review of the annual results for the year ended 31 December 2018.

By order of the Board
Kenneth Ting Woo-shou
Chairman

Hong Kong, 28 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Kenneth Ting Woo-shou, SBS, JP (Chairman and Managing Director), Mrs. Nancy Ting Wang Wan-sun and Mr. Ivan Ting Tien-li; the non-executive directors of the Company are Dr. Moses Cheng Mo-chi, GBM, GBS, OBE, JP and Mr. Bernie Ting Wai-cheung; and the independent non-executive directors of the Company are Mr. Floyd Chan Tsoi-yin, Mr. Andrew Yao Cho-fai, JP, Mr. Desmond Chum Kwan-yue and Mr. Ronald Montalto.