KADER

Manufacturing Trust

KADER HOLDINGS COMPANY LIMITED

ANNUAL REPORT 2018

(Stock Code : 180)

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Kenneth Ting Woo-shou, *SBS, JP* *(Chairman and Managing Director)*
Mrs. Nancy Ting Wang Wan-sun
Mr. Ivan Ting Tien-li

Non-executive Directors:

Dr. Moses Cheng Mo-chi, *GBM, GBS, OBE, JP*
Mr. Bernie Ting Wai-cheung

Independent Non-executive Directors:

Mr. Floyd Chan Tsoi-yin
Mr. Andrew Yao Cho-fai, *JP*
Mr. Desmond Chum Kwan-yue
Mr. Ronald Montalto

COMPANY SECRETARY

Mr. Lao Wai-keung

AUDIT COMMITTEE

Mr. Desmond Chum Kwan-yue *(Chairman)*
Dr. Moses Cheng Mo-chi, *GBM, GBS, OBE, JP*
Mr. Floyd Chan Tsoi-yin
Mr. Andrew Yao Cho-fai, *JP*

REMUNERATION COMMITTEE

Mr. Andrew Yao Cho-fai, *JP* *(Chairman)*
Mr. Kenneth Ting Woo-shou, *SBS, JP*
Mr. Floyd Chan Tsoi-yin

NOMINATION COMMITTEE

Mr. Kenneth Ting Woo-shou, *SBS, JP* *(Chairman)*
Mr. Floyd Chan Tsoi-yin
Mr. Desmond Chum Kwan-yue

AUTHORISED REPRESENTATIVES

Mr. Kenneth Ting Woo-shou, *SBS, JP*
Mr. Ivan Ting Tien-li

SOLICITORS

P.C. Woo & Co.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

22 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Chong Hing Bank Limited
DBS Bank (Hong Kong) Limited
East West Bank Hong Kong Branch
Hang Seng Bank Limited
The Bank of East Asia, Limited

INDEPENDENT AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR

Estera Management (Bermuda) Limited
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Chairman's Statement

On behalf of the Board of Directors (the "Board") of Kader Holdings Company Limited (the "Company"), I am pleased to present to our shareholders the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

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.

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.

The unfavourable economic environment, keen competition and the Toys"R"Us issue have negative impact on the performance of the Group for 2018. Faced with the challenging economy, the Group will continue to enhance the development of its core business by building up sales channels, exploring new sales opportunities in the global market, etc. In relation to cost control, the Group will continue to streamline the operational procedures to enhance the efficiency and implement various measures to minimize the costs. With the above measures and the experienced and dedicated management team, the Group is optimistic to deliver attractive returns to the shareholders in the future.

The Group has the intention to revitalize Kader Building where our head office currently situates, and has commenced initial procedures and submitted the relevant documents to the Government of the Hong Kong Special Administrative Region. The revitalization will increase the value of Kader Building and the rental income in the future.

On behalf of the Board, I would like to take this opportunity to express my appreciation to the Board members, our experienced management team and our dedicated team of employees who devoted themselves to the Group during the past year. Their contributions are unfailing and most instrumental to the continued viability of the Group. In addition, I take this opportunity to extend our gratitude to our customers, suppliers, business partners and shareholders for their unwavering support and confidence in the Group.

Kenneth Ting Woo-shou
Chairman

Hong Kong, 28 March 2019

Management Discussion and Analysis

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.

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 completely 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 this annual report.

Management Discussion and Analysis *(Continued)*

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 this annual report.

FINANCIAL REVIEW

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.

Management Discussion and Analysis *(Continued)*

PROSPECTS

The economic outlook for the year ahead is uncertain due to the United States-China trade war and Brexit. 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 Kader Building, 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.

By order of the Board
Kenneth Ting Woo-shou
Managing Director

Hong Kong, 28 March 2019

Corporate Governance Report

The Board of Directors is pleased to present this Corporate Governance Report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance to enhance corporate performance and accountability. The Board regularly reviews and adopts corporate governance guidelines and developments. The Board believes that good corporate governance will in the long term serve to enhance shareholders' value.

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 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. Kenneth Ting Woo-shou to the posts of Chairman and Managing Director is beneficial to the Group as he has considerable industry experience.

DIRECTORS' SECURITIES TRANSACTIONS

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.

BOARD OF DIRECTORS

The Board currently comprises three Executive Directors (one of whom is the Chairman and Managing Director of the Company), two Non-executive Directors and four INEDs. The biographical details of all directors of the Company, including the relationship amongst them, are set out on pages 24 to 27 of this annual report.

Corporate Governance Report *(Continued)*

Chairman and Managing Director

Mr. Kenneth Ting Woo-shou currently holds the offices of Chairman and Managing Director of the Company. The Board believes that vesting the roles of both Chairman and Managing Director in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

Non-executive Directors and Independent Non-executive Directors

Non-executive Directors and INEDs are selected with the necessary skills and experience to provide a strong independent element on the Board and to exercise independent judgement. All Non-executive Directors and INEDs are engaged on a term of service of two years renewable for another two years upon expiry. The Board believes the Non-executive Directors and INEDs are well qualified and competent in advising the Group on business strategies, finance and management issues. The INEDs are explicitly identified in all corporate communications, and one of them has significant accounting and financial expertise as provided under Rule 3.10 of the Listing Rules. The Board has received from each INED a written annual confirmation of independence. All the INEDs meet the independence criteria set out in Rule 3.13 of the Listing Rules.

Appointment and Re-election of Directors

All directors are subject to re-election by shareholders at the annual general meeting following their appointment and at least every three years on a rotational basis. Where vacancies exist on the Board, candidates are proposed and put forward to the Board for consideration and approval. In accordance with the Company's Bye-laws, all newly appointed directors shall hold office until the next following annual general meeting of the Company after their appointment and shall then be eligible for re-election.

Continuous Professional Development of Directors

Upon their appointment, the new directors receive a package of orientation materials and attend extensive presentations given by senior executives to review the Group's businesses and to understand the statutory and regulatory obligations of a director of a listed company. Development and training of directors is an ongoing process so that they can perform their duties appropriately. The Group continuously updates directors on the latest changes in the commercial environment and the current development of the Listing Rules and other applicable regulatory requirements, to ensure compliance and to enhance their awareness of good corporate governance practices. All directors are encouraged to attend relevant training courses at the Company's expense.

The directors have provided to the Company their training records in the year. All of them have participated in appropriate continuous professional development by attending trainings or reading materials relevant to the Company's business or the directors' duties and responsibilities. All directors, namely Mr. Kenneth Ting Woo-shou, Mrs. Nancy Ting Wang Wan-sun, Mr. Ivan Ting Tien-li, Dr. Moses Cheng Mo-chi, Mr. Bernie Ting Wai-cheung, Mr. Floyd Chan Tsoi-yin, Mr. Andrew Yao Cho-fai, Mr. Desmond Chum Kwan-yue and Mr. Ronald Montalto complied with Code Provision A.6.5 of the CG code during the reporting year.

During the year, the Company has renewed the directors' and officers' liability insurance which provides appropriate cover for the directors and senior management.

Role of the Board

The Board is responsible for setting the strategic direction and policies of the Group and supervising management. The functions normally reserved for the Board are the monitoring and approving material transactions; steering the Group on strategic direction; setting up a Board committee for issues the Board deems appropriate; reviewing and approving the interim and final results; overseeing the effectiveness of the risk management and internal control system; evaluating major corporate, strategic and operational issues that have a significant impact on the Group; and evaluating major investment opportunities which management has not already identified and/or, if the investment is so material, requires the Board to make a decision.

Board Meetings

The Board meets regularly and at least four times a year. Additional board meetings will be held when required. The board papers and related materials are dispatched to the directors within a reasonable time before the board meetings. In addition, directors have full access to information of the Group and can obtain independent professional advice whenever deemed necessary. The Company Secretary is responsible for communications with Board members.

Corporate Governance Report *(Continued)*

Attendance Records of Directors

The attendance records of individual members of the Board and other Board Committees during the financial year are set out as below:

	Number of meetings attended/held				
Name of Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Mr. Kenneth Ting Woo-shou	4/4	–	2/2	1/1	1/1
Mrs. Nancy Ting Wang Wan-sun	2/4	–	–	–	1/1
Mr. Ivan Ting Tien-li	3/4	–	–	–	1/1
Dr. Moses Cheng Mo-chi	4/4	2/2	–	–	0/1
Mr. Bernie Ting Wai-cheung	4/4	–	–	–	0/1
Mr. Floyd Chan Tsoi-yin	4/4	2/2	2/2	1/1	0/1
Mr. Andrew Yao Cho-fai	3/4	2/2	2/2	–	0/1
Mr. Desmond Chum Kwan-yue	3/4	2/2	–	1/1	0/1
Mr. Ronald Montalto	3/4	–	–	–	0/1

BOARD COMMITTEES

Pursuant to the CG Code, the Board established three committees, namely, Remuneration Committee, Audit Committee and Nomination Committee to oversee particular aspects of the Group's affairs.

The Company also established the Executive Committee in July 2006 with delegated authority to deal with the various miscellaneous banking matters of the Company. This committee comprises all the Executive Directors of the Company.

The Board is responsible for performing the corporate governance functions which included:–

(a) developing and reviewing the Company's policies and practices on corporate governance;

(b) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(c) reviewing and monitoring the training and continuous professional development of the directors and senior management;

(d) developing, reviewing and monitoring the code of conduct applicable to employees and directors of the Company; and

(e) reviewing the Company's compliance with the CG code and disclosure in the Corporate Governance Report.

Remuneration Committee

The Remuneration Committee was established in 2005 with written Terms of Reference posted on the Company's website. The Remuneration Committee comprises two INEDs and one Executive Director. Currently, the Remuneration Committee is chaired by Mr. Andrew Yao Cho-fai. Other members of the Committee are Mr. Kenneth Ting Woo-shou and Mr. Floyd Chan Tsoi-yin.

During the year, Remuneration Committee held two meetings to perform their functions as specified in the Terms of Reference. The role and function of the Committee is to make recommendations to the Board on the policy and structure for the remuneration of all directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The Committee determines the remuneration packages of individual executive directors and senior management and makes recommendations to the Board on the remuneration of non-executive directors, based on the profitability of the Group, the relevant market data, the performance and contribution of the individual directors. The primary objective is to retain and motivate the directors by linking their remuneration with performance and measuring it against corporate goals. However, no director can approve his or her own remuneration.

The emoluments of each of the directors of the Company for 2018 are set out in note 7 to the financial statements.

Audit Committee

The Audit Committee was established in 1999 with written Terms of Reference posted on the Company's website. The Audit Committee comprises three INEDs and one Non-executive Director. All committee members have appropriate industry and/or financial experience to perform their role in the business of the Audit Committee. Currently, the Committee is chaired by Mr. Desmond Chum Kwan-yue and the other members of the Committee are Dr. Moses Cheng Mo-chi, Mr. Floyd Chan Tsoi-yin and Mr. Andrew Yao Cho-fai.

The Audit Committee held two meetings during the year to perform their functions as specified in the Terms of Reference. During the year under review, the Audit Committee has met with management to review the interim and annual financial statements and to consider key accounting policies, and discussed with management the Group's risk management and internal controls and auditing and financial reporting matters.

Corporate Governance Report *(Continued)*

Under its Terms of Reference, the duties of the Audit Committee, amongst other things, shall be to oversee the relationship with the external auditors, to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, to consider any questions of resignation or dismissal of that auditor, and to review with senior management and external auditors the accounting principles and practices adopted, the Listing Rules and statutory compliance, internal control, related party transactions, risk management and financial reporting matters, including interim and annual financial statements and to provide recommendations to the Board.

The Audit Committee members have monitored the integrity of the Group's financial statements, annual and interim reports and accounts. They have also reviewed the significant financial reporting judgements contained in them. The review of the financial statements in the annual and interim reports, before submission to the Board, focused on:

1. Any changes in accounting policies and practices;

2. Major judgemental areas;

3. Significant adjustments resulting from audit;

4. The going concern assumptions and any qualifications;

5. Compliance with accounting standards;

6. Compliance with the Listing Rules and other legal requirements in relation to financial reporting; and

7. Any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give due consideration to any matters that have been raised by senior management.

The Audit Committee also discussed issues and reservations arising from the audit work performed, and any matters the auditors might wish to discuss (in the absence of management where necessary).

The Audit Committee has performed an annual review of the control systems which included:

1. Reviewing the financial controls, risk management and internal control systems;

2. Discussing with management the system of risk management and internal control to ensure that management has performed its duty to have an effective risk management and internal control system including the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Company's accounting and financial reporting function;

3. Considering any findings of major investigations on risk management and internal control matters as delegated by the Board or on its own initiative and management's response;

4. Ensuring co-ordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Group, and reviewing and monitoring the effectiveness of the internal audit function;

5. Reviewing arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and ensuring that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

6. Reviewing the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

7. Ensuring that the Board provided a timely response to the issues raised in the external auditor's management letter; and

8. Reporting to the Board on these matters as deemed appropriate.

Nomination Committee

The Company established the Nomination Committee in 2012 with written Terms of Reference posted on the Company's website. The Nomination Committee comprises two INEDs and one Executive Director. Currently, the Nomination Committee is chaired by Mr. Kenneth Ting Woo-shou. Other members of the Committee are Mr. Floyd Chan Tsoi-yin and Mr. Desmond Chum Kwan-yue.

Corporate Governance Report *(Continued)*

The Nomination Committee held one meeting during the year. The duties of the Committee are to (i) 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 corporate strategy; (ii) identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorship; (iii) assess the independence of INEDs; and (iv) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the chief executive.

Board Diversity Policy

The Company has formulated the Board Diversity Policy in August 2013 aiming at setting out the approach on diversity of the Board of the Company. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Nomination Policy

The Company has formulated the Nomination Policy in December 2018 aiming at setting out the principles which guide the Nomination Committee to identify and evaluate a candidate for nomination to (i) the Board of the Company for appointment or (ii) shareholders of the Company for election, as a director of the Company.

1. Nomination Criteria

The Nomination Committee shall consider a number of factors in making nominations, including but not limited to the following:

1.1 Skills, Experience and Professional Expertise: The candidate should possess the skills, knowledge, experience and professional expertise which are relevant to the operations of the Company and its subsidiaries.

1.2 Diversity: Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board Diversity Policy of the Company.

1.3 Commitment: The candidate should be able to devote sufficient time to attend the board meetings and participate in other board associated activities.

1.4 Standing: The candidate should have the character, experience and integrity, and is able to demonstrate a standard of competence commensurate with the relevant position as a director of the Company.

1.5 Independence: The candidate to be nominated as an independent non-executive director must satisfy the independence criteria set out in the Listing Rules.

2. Nomination Procedures

2.1 If the Nomination Committee determines that an additional or replacement director is required, the Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate.

2.2 On making recommendation, the Nomination Committee may submit the candidate's personal profile and a proposal to the Board for consideration.

2.3 The Board shall observe the Board Diversity Policy and shall, subject to merit and suitability, continue in its endeavours to introduce more diversity into the Board, taking into account professional experience and qualifications, gender, age, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving board diversity.

AUDITOR'S REMUNERATION

Each year, the auditors are appointed at the Annual General Meeting ("AGM") and at the AGM held on 8 June 2018, directors were authorised to fix the auditors' remuneration for auditing services rendered.

The fees for audit and audit related services provided by the Group's auditors, KPMG, for the year ended 31 December 2018 are as follows:

Service rendered	**Fees paid/payable**
	HK$
Audit services	3,341,000
Tax services	66,000
Other services	502,000
	3,909,000

In addition, audit services and tax services were provided by other auditors to certain subsidiaries for the year ended 31 December 2018 and the related fees amounted to HK$1,142,000 and HK$215,000 respectively.

Corporate Governance Report *(Continued)*

Save as disclosed above, the auditors have not so far provided any significant non-auditing services. Should any non-auditing services be considered to be conducted by our auditors, the Audit Committee would consider these proposals based on the policy developed by them in this regard, and would then make recommendations to the Board.

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The directors acknowledge their responsibilities to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group. The directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

The responsibility of the auditors with respect to the financial statements is set out in the Independent Auditor's Report of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Group is committed to set up and maintain an effective risk management and internal control systems which are devised to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage and minimize rather than eliminate the risks of failure in the Group's operational systems.

The Board is responsible for maintaining a sound and effective risk management and internal control systems particularly in respect of the controls on financial, operational, compliance and risk management, to achieve the Group's business strategies and business operations and safeguard the Company's assets.

During the 2018, the outsourced internal auditor responsible for the review and appraisal on the effectiveness of financial, operational and compliance controls and risk management of the Group, provided reports to the Audit Committee and the management highlighting observations and recommendations to improve the risk management and internal control systems. The management agreed on the findings and adopted the recommendations accordingly.

The Audit Committee considered that there was no material defect in the Company's internal control review report.

The Board, through the Audit Committee, reviewed the overall effectiveness of the Group's risk management and internal control systems during the year, including financial, operational, compliance and risk management. The Board is of the view that the existing risk management and internal control systems are effective and adequate to the Group.

For the handling and dissemination of inside information, the Group has set up the following procedures and internal controls:

(1) The non-disclosure of confidential information is codified in the staff handbook;

(2) The inside information will only be disseminated to specified persons on a need-to-know basis; and

(3) The notifications regarding blackout period and securities dealing restrictions are sent to the relevant directors and employees.

The Group will review the effectiveness of the current procedures from time to time to ensure the compliance of the regulatory requirements.

DIVIDEND POLICY

Dividends may be distributed by way of cash and by other means that the Board considers appropriate. A decision to declare and pay dividends will require the approval of the Board and will be at its discretion. Such discretion is subject to the applicable laws and regulations, the Company's Bye-Laws and the approval of the shareholders, if applicable.

In determining the dividend payment ratio in respect of a financial year, the Board will take into account a desire to maintain and increase the dividend levels within the overall objective of maximizing shareholders' value over the long term. The dividend will generally be paid in the form of an interim and a final dividend.

In considering the level of dividend and means of payments, the Board will take into account the following factors:

1. results of operations and retained earnings;

2. cash flows;

3. financial conditions;

4. shareholders' interest;

Corporate Governance Report *(Continued)*

5. capital requirements and investment plans;

6. general business conditions and strategies;

7. dividend yield of similar-sized companies listed in Hong Kong;

8. other relevant factors.

SHAREHOLDERS' RIGHTS

Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. This provides opportunities for shareholders and investors to raise their queries and share their views with our directors and/or senior management. Shareholders may call for special general meetings and put forward agenda items for consideration by shareholders by sending to the Company Secretary at the principal place of business a written request for such general meetings together with the proposed agenda items. At any general meeting a resolution put to the vote of the meeting must be taken by poll.

INVESTOR RELATIONS

The Group endeavours to continue maintaining a high level of transparency in communicating with shareholders and investors. The Group is committed to maintain two-way communications with shareholders and investors and to update shareholders and investors on relevant information in its business in a timely manner subject to the relevant regulatory requirements.

Enquiries may be put to the Board through the Company Secretary by post at the principal place of business of the Company.

The Group maintains a corporate website at www.kaderholdings.com which enables shareholders and investors to track the Group's latest developments. This acts as an effective medium for information disclosure, and provides comprehensive and update information on the Group's operations, announcements, circulars, notices, as well as interim and annual reports. During the year, there is no substantial change in the Memorandum of Association and Bye-laws of the Company.

As at 31 December 2018, the Company had 950,587,991 shares in issue, with a par value of HK$0.10 each. Interests of the directors and chief executives in the shares of the Company are disclosed in the Directors' Report set out on pages 28 to 30 of this annual report.

Directors' Report

The Directors of the Company have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is incorporated in Bermuda under the Bermuda Companies Act 1981 with limited liability. The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are the manufacture and trading of plastic, electronic and stuffed toys and model trains, property investment, and investment holding.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 10 to the financial statements.

SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31 December 2018 are set out in note 13 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 66 to 169.

BUSINESS REVIEW

A business review of the Group is provided in the Management Discussion and Analysis on pages 4 to 8. An analysis of the Group's performance using financial key performance indicators is provided in the Five-Year Summary on pages 171 to 172. No important events affecting the Group have occurred since the end of the financial year under review.

FIVE-YEAR 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 pages 171 to 172 of the annual report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 27 (c) to the financial statements. There was no change in the authorized and issued share capital during the year.

Directors' Report *(Continued)*

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of approximately HK$181,750,000 (2017: approximately HK$321,748,000) have been transferred to reserves. Other movements in reserves during the year are set out in the consolidated statement of changes in equity.

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.

DONATIONS

Donations made by the Group during the year for charitable and other purposes amounted to approximately HK$1,405,000 (2017: HK$1,615,000).

EQUITY-LINKED AGREEMENTS

No equity-linked agreement was entered into by the Group during the year or subsisted at the end of the financial year.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 11 to the financial statements.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2018 are set out in note 22 to the financial statements.

RETIREMENT SCHEMES

Details of the retirement schemes of the Group are set out in note 30 to the financial statements.

PROPERTY

Particulars of the property of the Group are shown on page 170 of the annual report.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales attributable to the Group's largest suppliers and customers are as follows:

	2018	2017
	%	%
Purchases		
– the largest supplier	**22**	20
– five largest suppliers combined	**50**	47
Sales		
– the largest customer	**55**	57
– five largest customers combined	**64**	68

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest at any time during the year in the above customers or suppliers.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2018 are set out in note 31 to the financial statements.

DIRECTORS

The Board during the financial year and up to the date of this report was:

Executive Directors:
Mr. Kenneth Ting Woo-shou *(Chairman and Managing Director)*
Mrs. Nancy Ting Wang Wan-sun
Mr. Ivan Ting Tien-li (re-designated as an Executive Director on 1 April 2018)

Non-executive Directors:
Dr. Moses Cheng Mo-chi
Mr. Bernie Ting Wai-cheung

Independent Non-executive Directors:
Mr. Floyd Chan Tsoi-yin
Mr. Andrew Yao Cho-fai
Mr. Desmond Chum Kwan-yue
Mr. Ronald Montalto

Directors' Report *(Continued)*

The Company has received from each of its INEDs an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers its INEDs to be independent. Members of the Board clearly understand their responsibility and obligations.

The Directors of the Company shall retire by rotation in accordance with the Company's Bye-laws 109(A) and 189(ix). The retiring Directors shall be eligible for re-election at the forthcoming annual general meeting.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Chairman and Managing Director

Mr. Kenneth Ting Woo-shou, SBS, JP, aged 76, was reappointed as the Managing Director of the Company in July 2012. He was appointed as the Chairman of the Company and resigned as the Managing Director of the Company in July 2010. He has been the Managing Director of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited, a wholly-owned subsidiary of the Company, since 1971 and was appointed as the Chairman in 1993. He was appointed as an Independent Non-executive Director of Cheuk Nang (Holdings) Limited in November 2012. He is also an Independent Non-executive Director of Wheelock and Company Limited.

Mr. Ting currently serves as the Honorary President of HK Wuxi Trade Association Limited, The Federation of HK Jiangsu Community Organisation, Federation of Hong Kong Industries, The Chinese Manufacturers' Association of Hong Kong and The Toys Manufacturers' Association of Hong Kong Limited, and the Honorary Life President of the Hong Kong Plastics Manufacturers' Association Limited.

He also serves as a member of a number of other trade organisations and public committees such as The Hong Kong General Chamber of Commerce. He is Life Honorary Court Member of The Hong Kong University of Science and Technology.

Mr. Ting is a director of H.C. Ting's Holdings Limited which is a substantial shareholder of the Company. He is the father of Mr. Ivan Ting Tien-li, Executive Director of the Company, husband of Mrs. Nancy Ting Wang Wan-sun, Executive Director of the Company, and uncle of Mr. Bernie Ting Wai-cheung, Non-executive Director of the Company.

Executive Directors

Mrs. Nancy Ting Wang Wan-sun, aged 71, was appointed as a Non-executive Director of the Company in January 2008, and re-designated as an Executive Director of the Company in February 2009. She has been an Executive Director of Kader Industrial Company Limited, a wholly-owned subsidiary of the Company, since 2001. Mrs. Ting has not held any directorship in other listed public companies in the last three years. She is the wife of Mr. Kenneth Ting Woo-shou, Chairman and Managing Director of the Company, the mother of Mr. Ivan Ting Tien-li, Executive Director of the Company, and the auntie of Mr. Bernie Ting Wai-cheung, Non-executive Director of the Company.

Mr. Ivan Ting Tien-li, aged 43, was appointed as an Executive Director of the Company in April 2006. He was appointed as the Managing Director of the Company in July 2010, and stepped down from that position when he was re-designated as a Non-executive Director of the Company in July 2012. He was re-designated as an Executive Director of the Company in April 2018. Mr. Ting holds a Bachelor's Degree in International Politics and Economics. He is one of the authorized representatives of the Company. He has been an Executive Director of Kader Industrial Company Limited, a wholly-owned subsidiary of the Company, since 1998. Apart from this, he also serves as director of certain other subsidiaries of the Company. Mr. Ting was appointed as an Independent Non-executive Director of Harbour Center Development Limited in December 2018. Mr. Ting currently serves as a General Committee Member of the Hong Kong Exporters' Association. He is the son of Mr. Kenneth Ting Woo-shou, Chairman and Managing Director of the Company and Mrs. Nancy Ting Wang Wan-sun, Executive Director of the Company, and the cousin of Mr. Bernie Ting Wai-cheung, Non-executive Director of the Company.

Non-executive Directors

Dr. Moses Cheng Mo-chi, GBM, GBS, OBE, JP, aged 69, was appointed as an Independent Non-executive Director of the Company in March 1999, and re-designated as a Non-executive Director of the Company in September 2004.

Dr. Cheng is a consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng is now also serving as chairman of the Insurance Authority. He currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited, Towngas China Company Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited, Guangdong Investment Limited, Tian An China Investments Company Limited and The Hong Kong and China Gas Company Limited, all being public listed companies in Hong Kong. Dr. Cheng had ceased to be an Independent Non-executive Director of ARA Asset Management Limited (a company formerly listed in Singapore) on 20 April 2017.

Directors' Report *(Continued)*

Mr. Bernie Ting Wai-cheung, aged 53, was appointed as a Non-executive Director of the Company in July 2010. He was appointed as a director of Kader Industrial Company Limited since July 2010. He is the Director and General Manager of Qualidux Industrial Company Limited. He studied Mechanical Engineering at the University of Toronto, Canada. He obtained his MBA at Worcester Polytechnic Institute in the USA. He briefly worked in a manufacturing company in Canada. He is now working at Qualidux Industrial Company Limited as the Director and General Manager. Mr. Ting has not held any directorship in other listed public companies in the last three years.

Mr. Ting is the Honorary President of Hong Kong Toys Council under the auspices of the Federations of Hong Kong Industries. He became the Vice President of International Council of Toys Industries (ICTI) in 2009 to 2015 and became the President of Asian Committee of Toy Industries in May 2018. He is the Vice President of The Toys Manufacturers' Association of Hong Kong. As part of his public duties in Hong Kong, he is the Chairman of Hong Kong Q-Mark Council and the Vice Chairman of The Hong Kong Standards and Testing Centre Limited. He is the Director of Hong Kong Certification Centre Limited. He is the member of "CreateSmart Initiative" Vetting Committee. Mr. Ting is the Vice President of The Hong Kong Plastics Manufacturers Association Limited. He has been appointed by the Financial Secretary of the Hong Kong Special Administrative Region as member of Standing Committee on Company Law Reform for two years from 1 February 2017 to 31 January 2019. He contributes his spare time to community service through Rotary Club of Hong Kong South.

He is the nephew of Mr. Kenneth Ting Woo-shou, Chairman and Managing Director of the Company and Mrs. Nancy Ting Wang Wan-sun, Executive Director of the Company, and the cousin of Mr. Ivan Ting Tien-li, Executive Director of the Company.

Independent Non-executive Directors

Mr. Floyd Chan Tsoi-yin, aged 75, was appointed as an Independent Non-executive Director of the Company in September 2004. Mr. Chan is a member of the American Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He had been a partner of BDO Seidman in the United States for many years. He was the Asia Pacific Regional Coordinator of BDO International and a member of BDO McCabe Lo Limited's executive committee in Hong Kong. He has significant experience in assisting clients in exploring business opportunities in the Asia Pacific region, particularly the Southeast Asian developing countries and The People's Republic of China. He is also closely involved with assisting clients in developing business in North America and Europe. Mr. Chan has not held any directorship in other listed public companies in the last three years.

Mr. Andrew Yao Cho-fai, JP, aged 53, was appointed as an Independent Non-executive Director of the Company in September 2004. Mr. Yao, graduated from the University of California, Berkeley and Harvard Graduate School of Business, is the Chairman of Hong Kong Shanghai Alliance Holdings Limited (formerly Van Shung Chong Holdings Limited) (a company listed on the Main Board of the Stock Exchange).

Mr. Yao is the Hong Kong Deputy of the 12th and 13th National People's Congress of People's Republic of China, Vice Chairman of Shanghai Chinese Overseas Friendship Association, Chairman of Hongkong-Shanghai Economic Development Association, Deputy Chairman of the Council of Hong Kong Baptist University, Vice Chairman of Shanghai Federation of Industry & Commerce, Board Member of Fudan University in Shanghai.

Mr. Desmond Chum Kwan-yue, aged 46, was appointed as an Independent Non-executive Director of the Company in March 2009. Mr. Chum was a portfolio manager at Claren Road Asset Management from 2008 to 2017, a company that provides financial services, and was responsible for building and managing a portfolio of regional corporate and sovereign bonds. Prior to working at Claren Road Asset Management, Mr. Chum was a Managing Director of Citigroup where he spent 12 years and helped to build its fixed income franchise in Asia. He oversaw a team of investment professionals and ran the Global Special Situations Group's investment activities in the Greater China Region. He has extensive experience in sourcing, evaluating and executing private lending, private equity and real estate investments in the Greater China Region. He resigned as an Independent Non-executive Director of Classified Group (Holdings) Limited in June 2018. Mr. Chum graduated from Oxford University.

Mr. Ronald Montalto, aged 70, was appointed as an Independent Non-executive Director of the Company in April 2009. Mr. Montalto graduated from East Carolina University in 1971. He was also awarded Juris Doctor from Emory University School of Law in 1974. Mr. Montalto was practicing Attorney in Atlanta between 1975 and 1982. Currently, he is Member of State Bar of California (Inactive). After his retirement from Mattel in 2004, Mr. Montalto consulted for Mattel Inc. senior management and developed a plan to relocate all Mattel's European manufacturing operations and back office support to Asia during 2005. He was a Senior Vice President of various Operations at Mattel where he worked for 21 years (15 of which were in Hong Kong) and established Mattel's Asian sourcing unit and was responsible for managing and integrating Mattel Brands' procurement and manufacturing Operations. He was a Director of Business Development at Mattel Far East Operations (Hong Kong) between 1983 and 1987. Since retirement, Mr. Montalto has consulted periodically on sales advisory programs for Teradata, a division of NCR (National Cash Register Corporation). He also conducted an Asian business/supply chain study for Enesco, an industry leading international giftware company headquartered in Chicago and Dansk Investment Group, a California company with manufacturing operations in Shanghai. Mr. Montalto has not held any directorship in other listed public companies in the last three years.

Directors' Report *(Continued)*

DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting have an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

All Non-executive Directors and INEDs are engaged on a term of service of two years, renewable for another two years upon expiry, and subject to re-election upon retirement by rotation at the forthcoming annual general meeting under the Company's Bye-laws 109(A) and 189(ix).

DISCLOSURE OF INTERESTS

Directors' Interests and Short Positions in the Shares and Underlying Shares of the Company and the Associated Corporations

As at 31 December 2018, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(1) Interests in the Company

	Number of ordinary shares of HK$0.10 each				
Name of directors	Personal interests	Family interests	Corporate interests	Total interests	% of total issued share capital
Mr. Kenneth Ting Woo-shou	288,967,941	2,075,183 (i)	258,963,571 (ii)	550,006,695	57.86%
Mrs. Nancy Ting Wang Wan-sun	2,075,183	–	–	2,075,183	0.22%
Mr. Ivan Ting Tien-li	21,530,432	–	–	21,530,432	2.26%
Dr. Moses Cheng Mo-chi	15,714	–	–	15,714	0.00%
Mr. Bernie Ting Wai-cheung	–	–	–	–	–
Mr. Floyd Chan Tsoi-yin	–	–	–	–	–
Mr. Andrew Yao Cho-fai	–	–	–	–	–
Mr. Desmond Chum Kwan-yue	–	–	–	–	–
Mr. Ronald Montalto	–	–	–	–	–

Notes:

(i) The spouse of Mr. Kenneth Ting Woo-shou is the beneficial shareholder.

(ii) Included in the "Corporate Interests" above were 209,671,000 shares of the Company held by the Company's substantial shareholder, H.C. Ting's Holdings Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest through Border Shipping Limited; and 49,292,571 shares of the Company held by Glory Town Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest through Tyrol Investments Limited.

(2) Interests in Associated Corporations

Name of associated corporations	Beneficial interests	Class of shares	Number of shares held: Personal interests	Family interests	Corporate interests	% of interests in associated corporations
Allman Holdings Limited ("Allman")	Mr. Ivan Ting Tien-li	Ordinary shares of US$1.00 each	920[(i)]	–	–	63.89%
Pacific Squaw Creek, Inc. ("PSC")	Mr. Ivan Ting Tien-li	Ordinary shares of US$1.00 each	–	–	1,000[(ii)]	100.00%
Squaw Creek Associates, LLC ("SCA")	Mr. Ivan Ting Tien-li	Not applicable[(iii)]	–	–	–	62.00%[(iv)]
SCA	Mr. Kenneth Ting Woo-shou	Not applicable[(iii)]	–	–	–	13.00%[(v)]

Notes:

(i) These interests are held by Mr. Ivan Ting Tien-li.

(ii) These interests are held by Allman. Mr. Ivan Ting Tien-li's beneficial interests in Allman are disclosed in note (i) above.

(iii) SCA does not have issued share capital, the percentage of interest in SCA represents the interest in capital account balance.

(iv) These interests are held by PSC. Mr. Ivan Ting Tien-li's beneficial interests in PSC are disclosed in note (ii) above.

(v) These interests are held by Ting Corporation which is wholly owned by Mr. Kenneth Ting Woo-shou.

Directors' Report *(Continued)*

All the interests stated above represent long positions. As at 31 December 2018, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at 31 December 2018, none of the directors and chief executives of the Company nor their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS

As at 31 December 2018, substantial shareholders and other persons (other than directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which were recorded in the register kept by the Company under section 336 of the SFO were as follows:

	Number of ordinary shares of HK$0.10 each				
Substantial shareholders and other persons	**Personal interests**	**Family interests**	**Corporate interests**	**Total interests**	**% of total issued share capital**
Forest Crimson Limited	–	–	209,671,000(i)	209,671,000	22.06%
Mr. Ting Hok-shou	13,800,238	571,429(ii)	39,098,281(iii)	53,469,948	5.62%
Ms. Emily Tsang Wing-hin	571,429	13,800,238(iv)	39,098,281(iii)	53,469,948	5.62%

Notes:

(i) Included in the "Corporate Interests" above was 209,671,000 shares of the Company held by the Company's substantial shareholder, H.C. Ting's Holdings Limited, in which Forest Crimson Limited has a controlling interest through Border Shipping Limited.

(ii) The spouse of Mr. Ting Hok-shou, Ms. Emily Tsang Wing-hin, is the beneficial shareholder.

(iii) Included in the "Corporate Interests" above were 3,913,997 shares of the Company held by Golden Tree Investment Company Limited, in which Mr. Ting Hok-shou and Ms. Emily Tsang Wing-hin together have controlling interest; and 35,184,284 shares of the Company held by Kimpont Limited, in which Mr. Ting Hok-shou and Ms. Emily Tsang Wing-hin together have controlling interest through Golden Tree Investment Company Limited and Yale Investment Corporation.

(iv) The spouse of Ms. Emily Tsang Wing-hin is the beneficial shareholder.

Save as disclosed above, as at 31 December 2018, the Company was not notified by any persons (other than directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which were recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EMOLUMENT POLICY

The emoluments of the directors and senior management are determined with reference to the prevailing market practice, the profitability of the Group, the directors' performance and responsibilities within the Group and contributions to the Group. The Group may also provide discretionary bonuses to its employees as an incentive for their contribution to the Group subject to the Group's profitability and the individual's performance.

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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report *(Continued)*

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, Mr. Kenneth Ting Woo-shou and Mr. Bernie Ting Wai-cheung, directors of the Company, are considered to have interests in Qualidux Industrial Company Limited ("Qualidux"), a company engaging in toy manufacturing long before the listing of the Company on the Stock Exchange, which competes or is likely to compete with the business of the Group pursuant to the Listing Rules. Qualidux employed a total workforce of around 500 employees as at 31 December 2018.

As the Board of the Company is independent from the board of the abovementioned company and none of the above directors can control the Board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the business of such company.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

The changes in information of directors of the Company, which are required to be disclosed pursuant to Rule 13.51 (B)(1) of the Listing Rules are as follows:

Mr. Ivan Ting Tien-li was appointed as an Independent Non-executive Director of Harbour Center Development Limited, which is listed on the Stock Exchange, on 1 December 2018.

Dr. Moses Cheng Mo-chi was appointed as an Independent Non-executive Director of The Hong Kong and China Gas Company Limited, which is listed on the Stock Exchange, on 14 January 2019.

PREMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws of the Company, the Directors and officers of the Company are entitled to be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses, which they or any of them, their or any of their executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or otherwise in relation thereto, to the extent as permitted by law. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

AUDITORS

The financial statements for the year ended 31 December 2018 have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as the auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
Kenneth Ting Woo-shou
Chairman

Hong Kong, 28 March 2019

Environmental, Social & Governance Report

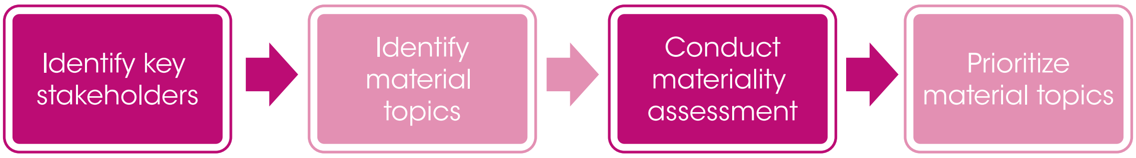
OUR SUSTAINABILITY APPROACH

The Group has been principally engaging in toys and model trains manufacturing for approximately 70 years. As an industry leader, we integrate corporate social responsibility ("CSR") in our operations in order to create long-term value to our employees, our customers, our supply chain, the community and the environment. To achieve this goal, the Group has a well-established integrated framework, supported by dedicated committees, group-wide policies and management systems to guide our business directions.

Management Tool	Detail
Environment, Health and Safety ("EHS") Management System	• Implemented at our manufacturing sites • An EHS committee is set up, chaired by the factory manager and consisting of employee representatives and personnel from various departments such as production, quality control, administration, human resources etc. • Internal inspections and committee meetings are conducted at regular intervals
Responsible Business Alliance ("RBA") CSR System	• Implemented at Gao Bu Factory • Formulated according to the RBA Code of Conduct
Group Environmental Policy	• Sets out the Group's commitments on environmental issues at factories and offices
Group Quality Policy	• Sets out the Group's commitments on providing high-quality products and services
Code of Integrity	• Provides guidance to all staff on how to perform business ethically
ISO9001:2008	• Certified for Zhong Tang and Gao Bu factories • Controls the quality of our production processes in a systematic and integrated manner

STAKEHOLDER ENGAGEMENT & MATERIALITY ASSESSMENT

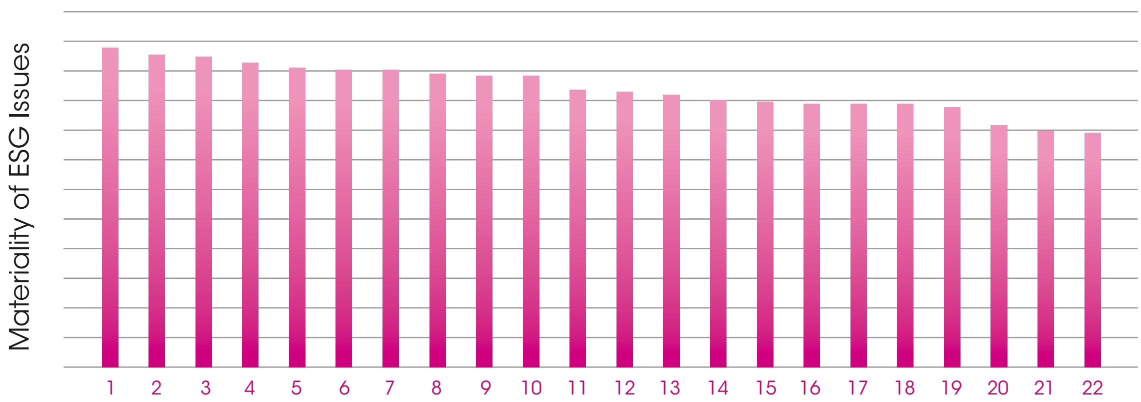
The Group has been maintaining close contact with our stakeholders as we believe they play a crucial role in our sustainability journey. We have identified key stakeholders of our business and material CSR topics. Through ongoing communication, we collect their views and opinions, which help us to identify ESG-related risks and to formulate our sustainability framework to address those risks.



Stakeholder	Communication Channel
Investor	• Company website • Annual and Interim Reports • Regular meetings
Customer	• Company website • Annual and Interim Reports • Customer service channels
Employee	• Training and orientation • Intranet • Performance review • Team building activities • Opinion box • Staff satisfaction survey
Supplier	• Selection Assessment • Procurement process

In FY2018, we have conducted an online questionnaire to prioritize those topics in terms of their importance and relevance to the Group. The questionnaire consists of 22 rating questions, covering areas on environmental protection, community investment, operational practices and employment. Through the materiality assessment, opinions are collected from both internal and external stakeholders. The graph below shows the results of the assessment:

Materiality Assessment



1 Customer privacy
2 Occupational health and safety
3 Customer satisfaction
4 Product quality and safety
5 Product and service labelling
6 Intellectual properties
7 Hazardous waste generation
8 Supply chain management
9 Ethical business
10 Labor rights
11 Air emission
12 Child labor
13 Energy use
14 Non-hazardous waste generation
15 Forced labor
16 Use of materials
17 Employee development
18 Diversity and equal opportunity
19 Water use
20 Community support
21 Greenhouse gas emission
22 Marketing communications

The top five key topics identified are:

- Customer privacy
- Occupational health and safety
- Customer satisfaction
- Product quality and safety
- Product and service labeling

Based on the results, we have prepared our ESG report and will continue to look for opportunities to improve our sustainability performance.

A RESPONSIBLE PRODUCER

As a responsible and leading toy manufacturing company, we endeavour to build long-term relationships with our customers and supply chain by providing services and products that they can trust.

Environmental, Social & Governance Report *(Continued)*

Customer Privacy & Intellectual Property Rights

Adhering to our customer-oriented approach, we are committed to safeguarding their privacy data. We shall keep customers' data confidential and shall not disclose any information directly or indirectly. Customer information is collected only when it is necessary. Unauthorized access and use of customers' data are prohibited, complying with data privacy laws and regulations. We will continuously conduct regular reviews on our data management and provide training to our employees on this subject.

At the same time, we highly value creativity and respect intellectual property ("IP") rights. In order to protect the interest of the Group and its customers, we have set up the Intellectual Property Safety Management System ("IPSMS") and defined clear roles and responsibilities of the parties involved. Our IP Manager is responsible for overseeing the performance of each department, arranging training and refining the IPSMS. Our employees are prohibited to disclose or exploit any patents and trademarks. Disciplinary action or even dismissal will be resulted for breaching the policy.

In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to privacy matters of products and services and IP rights in Hong Kong and Mainland China.

Customer Satisfaction

We strive to deliver the best experience to our customers and thus we set up the Customer Complaint Handling Procedure. It enables us to receive and handle customers' complaints properly, as well as to facilitate continuous improvement. We are committed to addressing the matter in a timely manner.

If our products are discovered to have any safety or health issues, we will recall the products and immediately stop the related production, according to our Product Recall Procedure. We will also engage specialists to carry out a comprehensive investigation in order to find out the root causes and impacts of the problems. Furthermore, we will promptly implement improvement plans to avoid similar occurrence in the future.

Product Quality & Safety

Upholding excellence in our product quality is our top priority. Guided by the Group Quality Policy, we strive to achieve the highest customer satisfaction through continuous improvement, as well as to produce quality products and deliver them on time to our customers. Our Zhong Tang and Gao Bu factories are certified with ISO9001 Quality Management System ("QMS"), demonstrating our commitment to quality management.

In practice, we have implemented a QMS to address and control our products' quality throughout the entire manufacturing process systematically. It clearly outlines steps and procedures which ensure our products meet our quality standards and clients' requirements. We conduct stringent quality control inspections along the whole production cycle, from incoming raw materials to final products.

To ensure proper and safe use of our products, we have a clear Product Labeling Policy to attach labels and instruction sheets to guide our customers. The labels with safety alert symbols are adhered and displayed on the exterior of containers or packaging with user's directions.

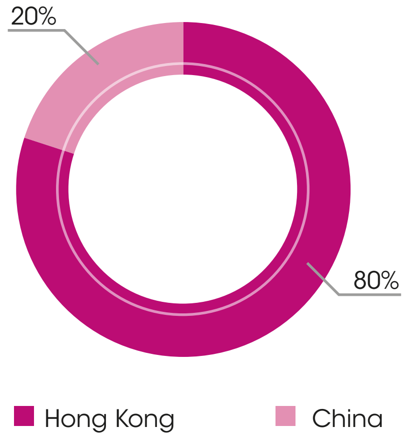
In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to health and safety, advertising and labeling matters of products and services in Hong Kong and Mainland China.

Supply Chain Management

We understand that it is essential for our supply chain to align with our CSR commitments and thus we manage our suppliers by establishing the Vendors Qualification and Vendor Control Procedure. All potential vendors are requested to fill in the quality survey, provide compliance proof and submit testing reports or reference sample for evaluating purposes. Where necessary, we will arrange onsite inspections to verify their actual performance. In addition to product quality, we have imposed requirements on our suppliers in various CSR-related aspects such as anti-corruption, occupational health and safety, product safety, labor standards and environmental protection. Only those who meet our requirements will be qualified on our approved vendor list.

Supplier performance appraisal is conducted regularly to assess their performance. If any non-conformity is found, corrective action will be requested. Failure to improve will lead to disqualification from the approved vendor list. In FY2018, the Group worked with 10 major suppliers, 80% from Hong Kong and 20% from China.

Major Suppliers by Geographical Region



We also embrace the idea of sustainability when conducting procurement activities. For example, we do not source materials containing minerals such as tin, tungsten, tantalum and gold from the Democratic Republic of Congo or adjoining countries.

Business Ethics

Probity is our core value when doing business. We are committed to maintaining the highest ethical standard of integrity, fidelity and honesty. Any form of fraud, bribery, extortion, and money laundering is strictly prohibited, as clearly stated in the Employee Handbook.

All employees are required to sign the Code of Integrity, which provides guidance on how to perform ethically, before commencement of employment to ensure their clear understanding of the Group's policy. They are not allowed to solicit or receive any gifts, rewards or advantages from external parties. Breaching the code will lead to disciplinary actions. In case of any suspicious incident, employees are welcomed to report to the management where investigations will be promptly carried out. Additionally, the same standards are also extended to our suppliers.

In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to bribery, extortion, fraud and money laundering in Hong Kong and Mainland China. There was 0 legal case regarding corrupt practices brought against the Group or our employees.

A RESPONSIBLE EMPLOYER

We always believe that the key to our continuous success is the dedication and loyalty of our people. To build and maintain a committed and innovative workforce, we put emphasis on safeguarding their health and safety, offering competitive remuneration, providing development opportunities and maintaining a pleasant workplace.

Occupational Health & Safety

To maintain a workplace free from occupational hazards, we have set up a comprehensive set of EHS polices to address various types of potential risks, such as the procedures for fire safety, hazardous waste management and use of chemicals.

Occupational risk assessments are carried out to identify potential hazards in our workplace, followed by regular internal inspections by our EHS committee. To safeguard our employees, various safety practices are implemented:

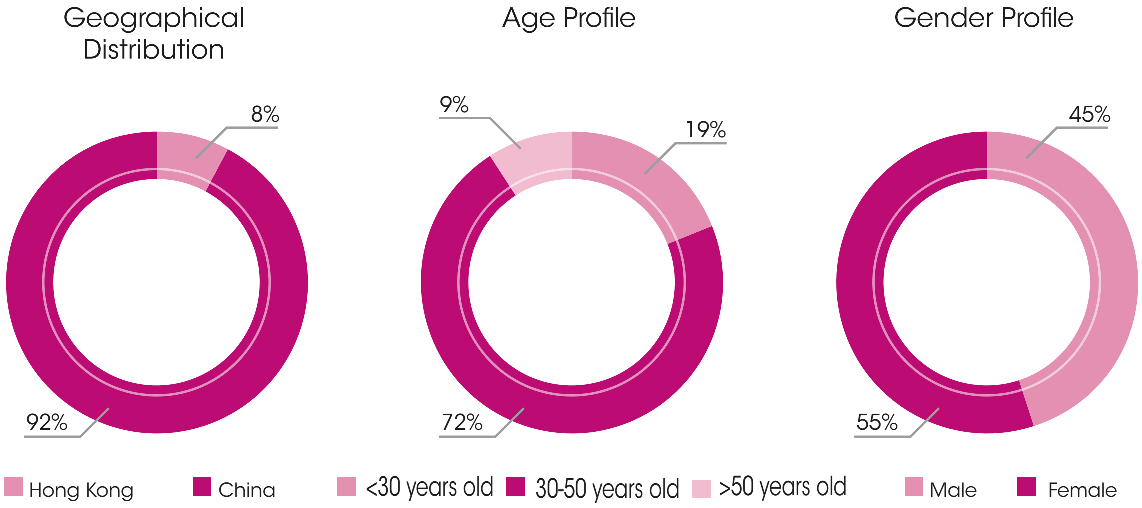
- All employees are required to attend and pass safety-related courses before employment commences
- Employees are always reminded to wear personal protective equipment ("PPE"), such as mask, ear plugs and safety glasses, when performing manual handling duties
- First-aid facilities are available in our workplace
- Training on machinery operation, fire safety, industrial safety, anti-terrorism and PPE is conducted annually with examinations
- Promotional activities are organized to raise staff's safety awareness
- Prior investigation is conducted for all new processes and substances before they are introduced
- Fire drills are carried out in production sites and dormitories every 6 months
- Regular inspection is carried out in the entire site to prevent violations of EHS procedures

In case of any accidents or injuries, our factories will follow emergency procedures and investigate the causes of the accidents. The EHS committee will review and formulate corrective actions, in order to prevent future occurrence of accidents.

In FY2018, there were 0 work-related fatality and 111.5 lost days due to work injuries. The Group was not aware of any material non-compliance with laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards in Hong Kong and Mainland China.

Employment

As at the end of FY2018, the total number of full-time employees is 1241, who are distributed in Hong Kong and China, accounting for 8% and 92% of the total workforce, respectively. Employees aged between 30 and 50 account for 72% of our total workforce while employees aged below 30 and above 50 represent 19% and 9% respectively. The ratio of male to female employees is 24:29.



We offer competitive remuneration packages to our staff, which are in line with relevant national and local labor laws and regulations. We also fulfil our responsibility as an employer to purchase mandatory provident fund and mandatory social welfare scheme for all employees in Hong Kong and China, respectively. Our benefits include medical benefits, personal accident insurance, business trip subsidies and lunch/supper subsidies. In addition to annual leaves and statutory holidays, all employees are entitled to sick leave, bereavement leave, marriage leave, maternity leave, paternity leave and jury duty leave.

The employment of child and forced labor is strictly prohibited within the Group. To make sure our people are above the age of 16, identification documents are checked at the beginning of the employment process. Frequent inspections are also conducted by our Human Resources Department to ensure compliance. In addition, we also ensure all of our staff work consensually and are free from any form of forced labor. The same practice is also extended to our supply chain.

Creating a fair and harassment-free working environment, as well as setting an example for our employees and industry peers, are our long-term goals. All employees and job applicants are treated equally, regardless of race, sex, marital status, pregnancy, disability status or other forms of difference that is unrelated to the job requirements. All decisions on recruitment, promotion, performance evaluation and salary adjustment are made solely based on qualifications, experiences and capabilities. We have also installed facilities at our offices to make it more user-friendly for disabled employees.

In FY2018, the Group was not aware of any material non-compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare, child and forced labor in Hong Kong and Mainland China.

Development & Training

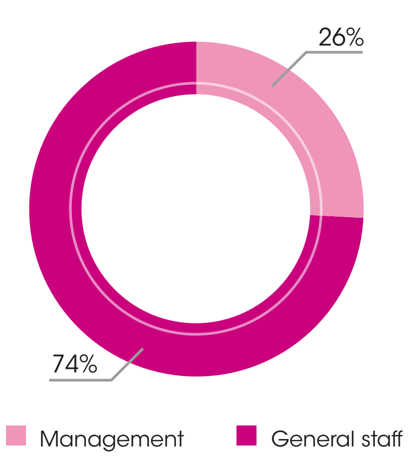
Understanding that continuous personal development of our staff is important, we have set a clear career development path. Through ongoing evaluations and annual performance reviews, employees' performances are assessed in an objective and fair manner. It is also an opportunity for staff to communicate with their supervisors on goal setting, training demands, difficulties encountered etc.

We actively encourage our staff to further develop their strengths and potentials by offering various training programs, such that they can continue to grow with us. All new hires are required to go through our orientation and induction program to help them swiftly adapt to the new working environment. Key topics covered include the Group's core business operations, policies and corporate culture. For employees appointed at specific technical positions, they are further provided with specialist training in acquiring necessary skills and knowledge to perform their duty.

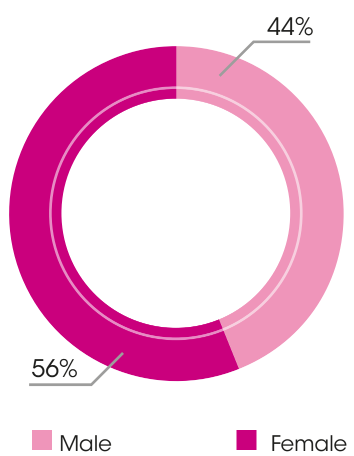
To manage our training programs systematically, annual training plans are formulated according to the Group's strategy, departmental needs, job requirements and employees' needs. Apart from internal training opportunities, we encourage employees to enhance their work-related skills and knowledge by sponsoring tuition fee for external training programs.

In FY2018, we have arranged a series of training activities, covering topics such as RBA requirements, computer competencies, personal development, machine operation, interpersonal skill and leadership building in order to enhance our service and product quality, as well as to maximize staff's potentials. A total of 1363 hours of training was held and the training hour per employee was 1.2 hours in Mainland China.

Percentage of Employees Trained by Employee Category



Percentage of Employees Trained by Gender



Environmental, Social & Governance Report *(Continued)*

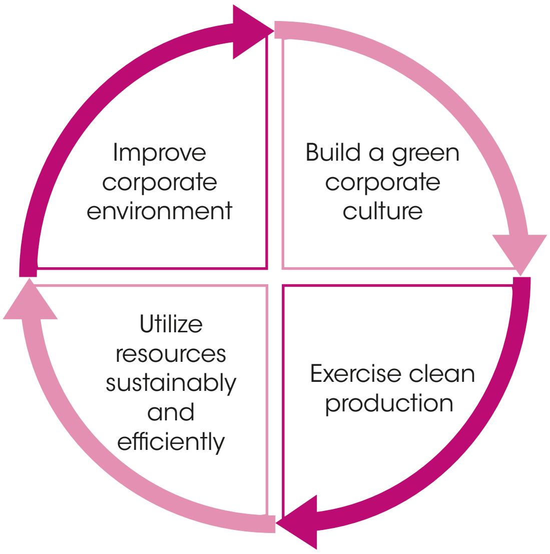
Employee Relationship

Employees are a crucial part of our continuous success and thus we strive to establish a two-way communication to understand their needs and opinions. Employees are welcomed to express any complaints or suggestions through multiple communication channels including opinion box, staff satisfaction survey, performance review, meetings and company activities.

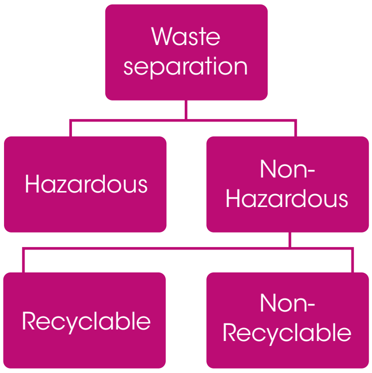
We value the relationship with our people by promoting work-life balance and building a sense of belonging towards the Group. To let our people relax from work, we have arranged various recreational activities such as Chinese New Year Dinner and Christmas Party in FY2018. We celebrated these festivals with our employees so as to recognize their hard work throughout the year and to provide opportunities to establish a closer bond among fellow colleagues.

RESPONSIBLE TO THE ENVIRONMENT

To effectively address and manage environmental issues in our production, the EHS System and Group Environmental Policy set out our commitments to embed sustainability considerations into our daily operations. Guided by the policy, a comprehensive set of policies and procedures is devised to ensure full compliance with industry standards, corporate requirements, as well as relevant environmental laws and regulations. We strive to improve our corporate environment, build a green corporate culture, exercise clean production and utilize our resources in a sustainable and efficient manner.



In FY2018, we were not aware of any material non-compliance with laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, generation of waste and use of resources in Hong Kong and Mainland China.



Waste Management

Waste separation is the key approach in our waste management as it helps to facilitate proper waste handling and divert useful materials from landfills. Following the Waste Management Procedure, all waste is separated into two main types, hazardous waste and non-hazardous waste, as they require different strategies on collection, storage, transferal and disposal. Sufficient and designated collection bins for each type of waste with clear labels are placed at specific areas for effective separation.

Hazardous waste generated from our production processes includes organic solvents, thinner, waste paint and ink, where they are properly segregated and stored at designated areas. These hazardous wastes are then consigned to licensed waste collectors for further handling and treatment. In FY2018, the Group generated 6,200 liters of thinner and 18 tonnes of chemical waste, with the intensities of 11.93 liters/million HKD sales and 0.03 tonnes/million HKD sales respectively.

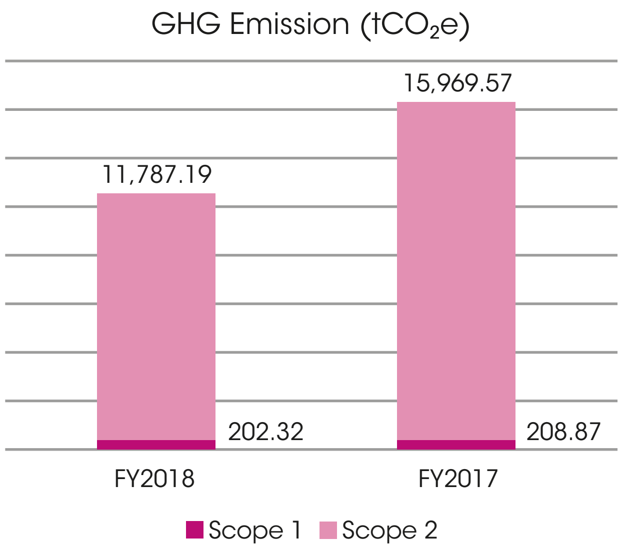
For non-hazardous wastes such as waste paper, food waste and domestic waste, they are further segregated into recyclable or non-recyclable materials. All the materials are reused as much as possible before recycling or final disposal. The collected recyclable waste is then recycled by licensed waste recyclers. For instance, waste paper is sent to paper mills for recycling. In FY2018, the Group generated a total of 209.17 tonnes of non-hazardous waste, with the intensity of 0.40 tonnes/million HKD sales.

Emission Control

Air emissions are inevitably generated from our production processes, mainly from plastic moulding, paint spraying and welding. In addition, oil fume from the staff kitchen and exhausts from company vehicles are the other sources of the Group's air emission. To make sure the level of air pollutants in the emitted air is well below the legal requirements, relevant emission permits are obtained at our manufacturing sites and regular inspections on the quality of the emitted air are conducted by a third party. In FY2018, the Group has emitted 93.70 kg of NO_x, 0.75 kg of SO_x and 11.86 kg of particulate matter ("PM"), generated by the use of town gas and vehicle fuels.

To reduce the level of air pollutants in our emissions, several mitigation and reduction initiatives are introduced:

- Use water-based and environmentally friendly paints with low volatile organic compound ("VOC") content
- Collect and treat exhaust gases containing VOCs centrally by our in-house air treatment facility, which is equipped with activated carbon absorber
- Install oil mist separators to minimize impacts in relation to oil fume emissions
- Upgrade the vehicle fleet with more electric cars in service



In view of global warming and climate change, we strive to reduce our greenhouse gas ("GHG") emissions by conserving our energy and resources, which will be detailed in the later section of this report. In FY2018, the Group has emitted a total of 11,989.51 tCO_2e of GHG with an intensity of 23.07 tCO_2e/million HKD sales, contributed by the use of electricity, town gas, vehicle fuels and refrigerant. Compared with FY2017, the Group's GHG emission intensity has been reduced by 7%, demonstrating our constant efforts in carbon footprint reduction.

Sustainable Resource Use

Energy Use

In our daily operation, electricity, town gas and vehicle fuels are the major types of energy consumed. We have measured and recorded our energy consumption systematically to understand the trend and pattern in order to develop proper strategy and targets on energy usage. The total annual energy consumption in FY2018 is as below:

Type of Energy	Unit	Consumption
Electricity	kWh	14,800,743.00
Intensity	kWh/million HKD sales	28,484.50
Town gas	units	6,240.00
Intensity	units/million HKD sales	12.01
Unleaded petrol	liters	33,364.37
Intensity	liters/million HKD sales	64.21
Diesel oil	liters	15,762.08
Intensity	liters/million HKD sales	30.33

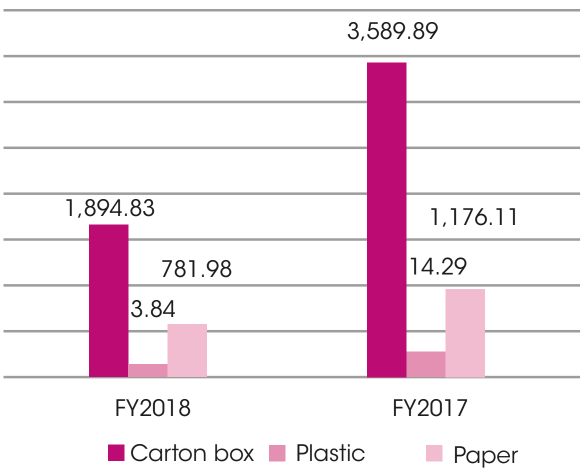
To cultivate a green corporate culture, a range of energy-saving initiatives is adopted at our factories and offices:

- Adjust production processes to enhance energy efficiency
- Opt for machineries and electrical appliances with high energy efficiency
- Replace traditional light bulbs with high-efficient LEDs
- Make use of natural light as much as possible
- Turn off unnecessary lighting or electrical appliances when they are not in use
- Place reminders on energy conservation around the workplace
- Maintain an average indoor temperature at 25°C

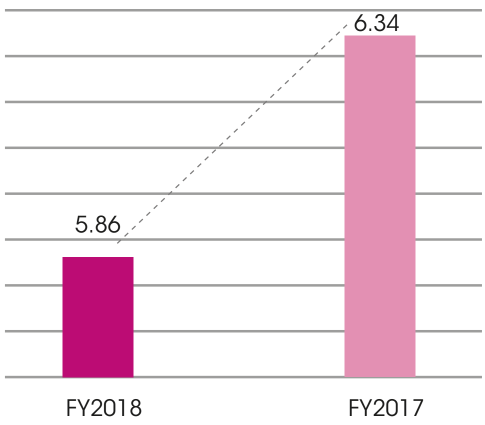
Material Use

During FY2018, we consumed a total of 5.86 tonnes of paper at our office and factories, with an intensity of 0.011 tonnes/million HKD sales. In addition, our production involves the use of packaging materials including carton box, paper and plastic. A total of 2,680.65 tonnes of packaging materials was consumed, with an intensity of 5.16 tonnes/million HKD sales. Comparing with FY2017, the Group's packaging consumption intensity in FY2018 has significantly decreased by 30%.

Packaging Material Consumption (tonnes)

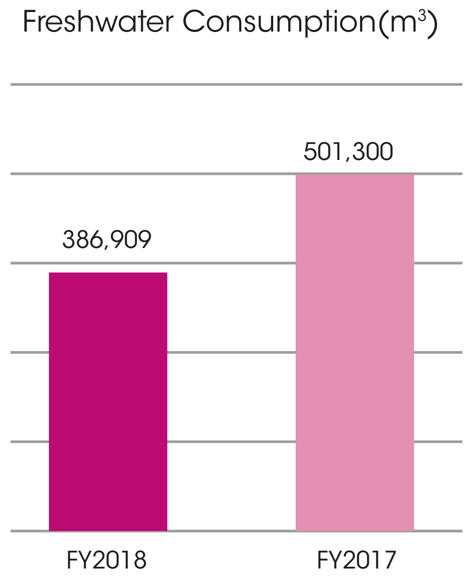


Office Paper Consumption (tonnes)



Environmental, Social & Governance Report *(Continued)*

Water Conservation



The Group is committed to conserving our water resources by using it responsibly and efficiently. During our production, the plastic moulding process relies on the use of water for cooling. Similarly, the operation of air treatment facility in paint spraying and staff kitchen also requires the use of water. In order to reduce water usage, the residual hot water or wastewater generated after the cooling process is recycled and reused in the production processes after treatment. Also, water-saving signs are also posted next to water taps to remind our staff to conserve water resources. In FY2018, there was no issue in sourcing water and the total water consumption was 386,909 m^3 with an intensity of 744.62 m^3/million HKD sales.

Industrial wastewater containing chemicals, oil or other hazardous substances is prohibited to discharge into the domestic sewer. It is indeed stored in special containers and treated by licensed wastewater collectors. Domestic wastewater generated from the staff kitchen is treated to reach an acceptable level by an oil and grease trap and in-house treatment facility before discharge. Regular inspections on the discharged water quality are carried out by a third party to ensure the level of pollutants discharged to the water body complies with national and local standards. In FY2018, the total wastewater discharged was 7,004.48 m^3, with an intensity of 13.48 m^3/million HKD sales.

RESPONSIBLE TO THE COMMUNITY

We fully recognize our responsibility to serve our community as it is an integral part of our corporate culture. To give back to the community, we actively engage and encourage our employees to participate in charitable activities such as joining the Dress Causal Day organized by the Community Chest. In FY2018, the total contribution made by the Group is HK$1,326,793. Looking ahead, the Group will continue to look for opportunities where we can contribute more.

APPENDIX: PERFORMANCE DATA SUMMARY

	Unit	FY2018	FY2017[1]
Total number of employees	–	1,241	1,576
By gender			
Male	–	562	682
Female	–	679	894
By employment type			
Permanent	–	1,241	1,576
Temporary	–	0	0
By age			
<30 years old	–	235	295
30 – 50 years old	–	897	1,163
>50 years old	–	109	118
By geographical region			
Hong Kong	–	105	111
Mainland China	–	1,136	1,465
Occupational health and safety performance			
Number of work-related fatalities	–	0	0
Rate of work-related fatalities	–	0	0
Lost days due to work-related injury	–	111.5	116
Training and development[2]			
Number of employees trained by gender			
Male	–	505	618
Female	–	631	847

	Unit	FY2018	FY2017[1]
Number of employees trained by employee category			
Management	–	298	386
General staff	–	838	1,079
Average training hours by gender			
Male	hours	1.20	0.67
Female	hours	1.20	0.67
Average training hours by employee category			
Management	hours	1.20	0.73
General staff	hours	1.20	0.64
Total number of key suppliers	–	10	10
By geographical region			
Hong Kong	–	8	7
Mainland China	–	2	3
Resource consumption			
Electricity	kWh	14,800,743.00	19,466,329.00
Intensity	kWh/million HKD sales	28,484.50	29,941.15
Town gas	units	6,240.00	6,062.00
Intensity	units/million HKD sales	12.01	9.32
Unleaded petrol	liters	33,364.37	42,286.05
Intensity	liters/million HKD sales	64.21	65.04
Diesel oil	liters	15,762.08	22,036.79
Intensity	liters/million HKD sales	30.33	33.89

	Unit	FY2018	FY2017[1]
Paper consumption			
Office paper	tonnes	5.86	6.34
Intensity	tonnes/million HKD sales	0.011	0.0097
Packaging materials			
Carton box	tonnes	1,894.83	3,589.89
Plastic	tonnes	3.84	14.29
Paper	tonnes	781.98	1,176.11
Total	tonnes	2,680.65	4,780.29
Intensity	tonnes/million HKD sales	5.16	7.35
Waste generation			
Hazardous waste			
Waste thinner	liters[3]	6,200.00	7,400.00
Intensity	liters/million HKD sales	11.93	11.38
Chemical waste	tonnes	18.00	–
Intensity	tonnes/million HKD sales	0.03	–
Non-hazardous waste			
Waste paper	tonnes	208.93	197.43[4]
Food waste	tonnes	0.24	0.28
Total	tonnes	209.17	197.71
Intensity	tonnes/million HKD sales	0.40	0.30
Water resources			
Freshwater consumption	m^3	386,909.00	501,300.00
Intensity	m^3/million HKD sales	744.62	771.05
Wastewater discharge	m^3	7,004.48	6,061.53
Intensity	m^3/million HKD sales	13.48	9.32

Environmental, Social & Governance Report *(Continued)*

	Unit	FY2018	FY2017[1]
Greenhouse gas emissions[5]			
Scope 1[6]	tCO_2e	202.32	208.87
Scope 2[7]	tCO_2e	11,787.19	15,969.57
Total	tCO_2e	11,989.51	16,178.44
Intensity	tCO_2e/million HKD sales	23.07	24.88
Air emissions[8]			
NO_x	kg	93.70	–
SO_x	kg	0.75	–
PM	kg	11.86	–

1 FY2017 refers to the period from 1 January 2017 to 31 December 2017.

2 Data on training and development only cover the two major manufacturing facilities at Zhong Tang and Gao Bu.

3 For waste thinner, the measurement unit is drum. One drum is equivalent to 200 liters. No information on weight is available.

4 FY2017's wastepaper data has been adjusted to reflect the actual operation.

5 The GHG emission is calculated based on the "How to prepare an ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEx and international standards such as ISO 14064 and GHG Protocol.

6 Scope 1 represents direct GHG emissions generated by the use of town gas, unleaded petrol, diesel oil and refrigerant.

7 Scope 2 represents energy indirect GHG emissions generated by the use of town gas and electricity.

8 Air emission consists of generations from the use of town gas and vehicle fuels. For the generation from vehicle fuels, it is calculated by multiplying the distance travelled or fuel consumption by emission factors. The distance travelled is derived based on estimations from available data. Meanwhile, there was no available information in FY2017. We will enhance the methodology in the future.

KEX ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
Aspect A Environmental			
A1 Emission	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 wastes.	– EHS Handbook – Waste Management Procedure – Hazardous Waste Management Procedure – Air Emission Management Procedure – Wastewater Management Procedure	RESPONSIBLE TO THE ENVIRONMENT – Waste Management, Emission Control, Water Conservation
KPI A1.1	The types of emissions and respective emissions data.	N/A	RESPONSIBLE TO THE ENVIRONMENT – Emission Control
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A	RESPONSIBLE TO THE ENVIRONMENT – Emission Control
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A	RESPONSIBLE TO THE ENVIRONMENT – Waste Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A	RESPONSIBLE TO THE ENVIRONMENT – Waste Management
KPI A1.5	Description of measures to mitigate emissions and results achieved.	– EHS Handbook – Air Emission Management Procedure	RESPONSIBLE TO THE ENVIRONMENT – Emission Control

Environmental, Social & Governance Report *(Continued)*

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	– EHS Handbook – Waste Management Procedure – Hazardous Waste Management Procedure	RESPONSIBLE TO THE ENVIRONMENT – Waste Management
A2 Use of Resource	Policies on efficient use of resources including energy, water and other raw materials.	– EHS Handbook	RESPONSIBLE TO THE ENVIRONMENT – Sustainable Resource Use
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	N/A	RESPONSIBLE TO THE ENVIRONMENT – Sustainable Resource Use
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	N/A	RESPONSIBLE TO THE ENVIRONMENT – Water Conservation
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	– EHS Handbook	RESPONSIBLE TO THE ENVIRONMENT – Sustainable Resource Use
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	N/A	RESPONSIBLE TO THE ENVIRONMENT – Water Conservation
KPI A2.5	Total packaging material used for finished products (in tonnes), and, if applicable, with reference to per unit produced.	N/A	RESPONSIBLE TO THE ENVIRONMENT – Sustainable Resource Use

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
A3 The Environment and Natural Resources	Policies on minimizing the issuer's significant impact on the environment and natural resources.	– EHS Handbook	RESPONSIBLE TO THE ENVIRONMENT
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	– EHS Handbook	RESPONSIBLE TO THE ENVIRONMENT
Aspect B Social			
B1 Employment	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.	– Employee Handbook – Recruitment Guideline	A RESPONSIBLE EMPLOYER – Employment
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	N/A	A RESPONSIBLE EMPLOYER – Employment
B2 Health and Safety	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.	– EHS Handbook	A RESPONSIBLE EMPLOYER – Occupational Health & Safety

Environmental, Social & Governance Report *(Continued)*

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
KPI B2.1	Number and rate of work-related fatalities.	N/A	A RESPONSIBLE EMPLOYER – Occupational Health & Safety
KPI B2.2	Lost days due to work injury.	N/A	A RESPONSIBLE EMPLOYER – Occupational Health & Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	– EHS Handbook	A RESPONSIBLE EMPLOYER – Occupational Health & Safety
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	– Employee Handbook	A RESPONSIBLE EMPLOYER – Development & Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	N/A	A RESPONSIBLE EMPLOYER – Development & Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	N/A	A RESPONSIBLE EMPLOYER – Development & Training
B4 Labour Standard	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 labor.	– Employee Handbook – Recruitment Guideline	A RESPONSIBLE EMPLOYER – Employment

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	– Employee Handbook – Recruitment Guideline	A RESPONSIBLE EMPLOYER – Employment
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	– Employee Handbook – Recruitment Guideline	A RESPONSIBLE EMPLOYER – Employment
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	– Procurement Procedures – Vendor Control and Qualification Procedures	A RESPONSIBLE PRODUCER – Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	N/A	A RESPONSIBLE PRODUCER – Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	– Procurement Procedures – Vendor Control and Qualification Procedures	A RESPONSIBLE PRODUCER – Supply Chain Management
B6 Product Responsibility	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, labeling and privacy matters relating to products and services provided and methods of redress.	– Product Monitoring Procedure – Product Recall Procedure – Customer Complaint Handling Procedure	A RESPONSIBLE PRODUCER – Product Quality & Safety

Environmental, Social & Governance Report *(Continued)*

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	– IP Manual	A RESPONSIBLE PRODUCER – Customer Privacy & Intellectual Property Rights
KPI B6.4	Description of quality assurance process and recall procedures.	– Product Monitoring Procedure – Product Recall Procedure	A RESPONSIBLE PRODUCER – Product Quality & Safety, Customer Satisfaction
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	– Employee Handbook	A RESPONSIBLE PRODUCER – Customer Privacy & Intellectual Property Rights
B7 Anti-corruption	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.	– Employee Handbook – Code of Integrity	A RESPONSIBLE PRODUCER – Business Ethics
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during reporting period and the outcomes of the cases.	N/A	A RESPONSIBLE PRODUCER – Business Ethics

HKEx ESG Reporting Guide General Disclosures & KPIs		Policies & Procedures	Explanation/ Reference Section
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	– Employee Handbook – Code of Integrity	A RESPONSIBLE PRODUCER – Business Ethics
B8 Community Investment	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.	N/A	RESPONSIBLE TO THE COMMUNITY
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	N/A	RESPONSIBLE TO THE COMMUNITY

Independent Auditor's Report

KPMG

To the shareholders of Kader Holdings Company Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Kader Holdings Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 66 to 169, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Valuation of investment properties

Refer to note 11 to the consolidated financial statements and the accounting policies on page 79.

The Key Audit Matter

At 31 December 2018 the Group held investment properties, which comprised an industrial building located in Hong Kong, with a fair value of HK$1,946 million and which accounted for 71% of the Group's total assets at that date.

The fair value of the investment properties at 31 December 2018 was assessed by the directors primarily based on an independent valuation report prepared by a firm of qualified external property valuers.

The net change in fair value of investment properties recorded in the consolidated statement of profit or loss represented 79% of the Group's profit for the year ended 31 December 2018.

We identified the valuation of investment properties as a key audit matter because of the significance of investment properties to the Group's total assets and the significance of the change in the fair value of investment properties to the Group's profit for the year and because the valuation of investment properties can be inherently subjective and requires significant judgements and estimates, particularly in selecting the appropriate valuation methodology, capitalisation rates and market rents.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of investment properties included the following:

- obtaining and inspecting the valuation report prepared by the external property valuers engaged by management and on which the directors' assessment of the fair value of investment properties was based;
- assessing the external property valuers' qualifications, experience and expertise in the location and type of property subject to valuation and considering their objectivity and independence;
- with the assistance of our internal property valuation specialists, discussing with the external property valuers, without the presence of management, their valuation methodology with reference to the requirements of the prevailing accounting standards and challenging the key estimates and assumptions adopted in the valuation by comparing capitalisation rates, prevailing market rents and comparable market transactions with the available market data and by utilising the industry knowledge and experience of our internal property valuation specialists; and
- comparing tenancy information, including committed rents and occupancy rates, provided by the Group to the external property valuers with underlying contracts and related documentation, on a sample basis.

KEY AUDIT MATTERS *(Continued)*

Potential impairment of property, plant and equipment in the toys and model trains segment

Refer to note 11 to the consolidated financial statements and the accounting policies on pages 79 and 80.

The Key Audit Matter

The carrying value of the Group's property, plant and equipment amounted to HK$145 million at 31 December 2018. The Group's property, plant and equipment principally comprised land and buildings together with plant and equipment used in the toys and model trains segment of the Group.

Given the increasing pressure on sales prices and market competition in the toys and model trains sector, management considered that there is a risk that the carrying value of these assets may not be fully recoverable through future cash flows to be generated from operations or from their disposal and determined that an impairment assessment of these assets was required.

The recoverable amount of property, plant and equipment relating to the toys and model trains segment is determined by management based on the value in use of these assets. Management prepared a discounted cash flow forecast, taking into consideration subjective factors such as the discount rate, future revenue, future margins and future cost growth rates. The net present value of the cash flow forecast was compared with the carrying value of the cash generating unit ("CGU") to which the relevant property, plant and equipment was allocated to determine whether any impairment loss should be recognised.

We identified the potential impairment of property, plant and equipment in the toys and model trains segment of the Group as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement, particularly in forecasting future cash flows and in determining the discount rate applied in the impairment assessment, both of which are inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of property, plant and equipment in the toys and model trains segment included the following:

- evaluating management's identification of the CGU which comprised the toys and model trains segment and the allocation of assets to that CGU;
- with the assistance of our internal valuation specialists, assessing the methodology adopted in the preparation of the discounted cash flow forecast by management, with reference to the requirements of the prevailing accounting standards, and whether the discount rate adopted in the discounted cash flow forecast was within the normal range of those of comparable entities;
- comparing the most significant inputs used in the discounted cash flow forecast, including future revenue, future margins and future cost growth rates to the historical performance of the CGU and publicly available industry reports, taking into account recent developments in the toys and model trains sector, the Group's future business plans and the financial budget which was approved by the directors;
- comparing the relevant revenue and operating costs included in the discounted cash flow forecast prepared by management in the prior year with the current year's actual performance to assess the accuracy of the prior year's forecast and making enquiries of management as to the reasons for any significant variations identified; and
- obtaining from management sensitivity analyses of both revenue and the discount rate and assessing the impact of changes in these key assumptions on the conclusions reached in the impairment assessment and whether there were any indicators of management bias.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. We obtained all of the other information prior to the date of this auditor's report apart from identify the parts of the annual report not yet received. This remaining information is expected to be made available to us after that date.

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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report *(Continued)*

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 Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

The engagement partner on the audit resulting in this independent auditor's report is Felix Kwo Hang Lee.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Revenue	3,10	**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	11	**(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	14	**25,593**	10,323
Surplus on revaluation of investment properties	11	**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
Attributable to:			
Equity shareholders of the Company		**181,750**	321,748
Non-controlling interests		**(346)**	6,059
Profit for the year		**181,404**	327,807
Earnings per share	9		
Basic		**19.12¢**	33.85¢
Diluted		**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.

The notes on pages 73 to 169 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 27(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 *HK$'000*	2017 *HK$'000*
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		**183,811**	342,330
Attributable to:			
Equity shareholders of the Company		**184,286**	336,089
Non-controlling interests		**(475)**	6,241
Total comprehensive income for the year		**183,811**	342,330

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.

The notes on pages 73 to 169 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018
(Expressed in Hong Kong dollars)

	Notes	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Non-current assets			
Investment properties	11	**1,945,733**	1,802,845
Other property, plant and equipment	11	**145,327**	123,392
		2,091,060	1,926,237
Intangible assets	12	**399**	1,041
Interest in associates	14	**89,248**	64,052
Other financial assets	16	**13,941**	28,828
Deposits and prepayments	15	**14,708**	16,151
Deferred tax assets	23(b)	**6,494**	11,633
		2,215,850	2,047,942
Current assets			
Other financial assets	16	**5,000**	–
Trading securities	17	**10,804**	–
Inventories	18(a)	**260,447**	274,695
Current tax recoverable	23(a)	**1,021**	62
Loans to an associate	14	**18,177**	25,874
Trade and other receivables	19	**127,169**	173,752
Cash and cash equivalents	20(a)	**95,886**	91,591
		518,504	565,974
Current liabilities			
Trade and other payables and contract liabilities	21	**116,194**	129,609
Bank loans	22	**267,937**	279,795
Current tax payable	23(a)	**26,695**	41,724
		410,826	451,128
Net current assets		**107,678**	114,846

Consolidated Statement of Financial Position *(Continued)*

At 31 December 2018
(Expressed in Hong Kong dollars)

	Note	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Total assets less current liabilities		**2,323,528**	2,162,788
Non-current liabilities			
Bank loans	22	–	3,118
Deferred rental expenses	24	**3,706**	3,767
Rental deposits	25	**1,025**	5,673
Deferred tax liabilities	23(b)	**23,603**	19,905
Accrued employee benefits	26	**92**	22
		28,426	32,485
NET ASSETS		**2,295,102**	2,130,303
CAPITAL AND RESERVES			
Share capital	27(c)	**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.

Approved and authorised for issue by the Board of Directors on 28 March 2019.

Kenneth Ting Woo-shou
Director

Nancy Ting Wang Wan-sun
Director

The notes on pages 73 to 169 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company										
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Land and buildings revaluation reserve HK$'000	Fair value reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
Balance at 1 January 2017		95,059	185,138	10,815	173,397	(77,741)	62,667	(107)	1,356,308	1,805,536	(3,303)	1,802,233
Changes in equity for 2017:												
Profit for the year		–	–	–	–	–	–	–	321,748	321,748	6,059	327,807
Other comprehensive income		–	–	–	–	9,132	–	5,209	–	14,341	182	14,523
Total comprehensive income		–	–	–	–	9,132	–	5,209	321,748	336,089	6,241	342,330
Dividends approved in respect of the previous year	27(b)(ii)	–	–	–	–	–	–	–	(14,259)	(14,259)	–	(14,259)
Deregistration of a non-wholly owned subsidiary		–	–	–	–	–	–	–	–	–	(1)	(1)
Balance at 31 December 2017		95,059	185,138	10,815	173,397	(68,609)	62,667	5,102	1,663,797	2,127,366	2,937	2,130,303
Impact on initial application of HKFRS 9		–	–	–	–	–	–	(5,102)	5,102	–	–	–
Adjusted balances at 1 January 2018		**95,059**	**185,138**	**10,815**	**173,397**	**(68,609)**	**62,667**	**-**	**1,668,899**	**2,127,366**	**2,937**	**2,130,303**
Changes in equity for 2018:												
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**181,750**	**181,750**	**(346)**	**181,404**
Other comprehensive income		**-**	**-**	**-**	**-**	**2,536**	**-**	**-**	**-**	**2,536**	**(129)**	**2,407**
Total comprehensive income		**-**	**-**	**-**	**-**	**2,536**	**-**	**-**	**181,750**	**184,286**	**(475)**	**183,811**
Dividends approved in respect of the previous year	27(b)(ii)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19,012)**	**(19,012)**	**-**	**(19,012)**
Balance at 31 December 2018		**95,059**	**185,138**	**10,815**	**173,397**	**(66,073)**	**62,667**	**-**	**1,831,637**	**2,292,640**	**2,462**	**2,295,102**

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.

The notes on pages 73 to 169 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Operating activities			
Cash generated from operations	*20(b)*	**131,212**	180,040
Tax paid:			
Hong Kong Profits Tax paid		**(23,201)**	(27,851)
Tax outside Hong Kong paid		**(17,031)**	(3,867)
Net cash generated from operating activities		**90,980**	148,322
Investing activities			
Payment for the purchase of property, plant and equipment		**(52,251)**	(20,755)
Proceeds from sale of property, plant and equipment		**3,189**	1,334
Proceeds from sale of available-for-sale securities		**–**	1,771
Decrease/(increase) in non-current deposits and prepayments		**1,443**	(16,151)
Payment for purchase of available-for-sale securities		**–**	(16,489)
Payment for purchase of other financial assets		**(1,950)**	–
Payment for purchase of trading securities		**(3,191)**	–
Proceeds from sales of trading securities		**4,619**	–
Payment for purchase of other financial assets at amortised costs		**(5,000)**	–
Interest received		**1,841**	2,034
Deregistration of a non-wholly owned subsidiary		**–**	(1)
Dividend received from an associate		**–**	877
Decrease/(increase) in amounts due from associates		**397**	(761)
Loans repaid from/(advanced to) an associate		**7,697**	(3,318)
Net cash used in investing activities		**(43,206)**	(51,459)

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Financing activities			
Proceeds from new bank loans	20(c)	**338,440**	212,524
Repayment of bank loans	20(c)	**(353,416)**	(259,196)
Interest paid	20(c)	**(7,781)**	(7,152)
Dividend paid to equity shareholders of the Company	27	**(19,012)**	(14,259)
Net cash used in financing activities		**(41,769)**	(68,083)
Net increase in cash and cash equivalents		**6,005**	28,780
Cash and cash equivalents at 1 January		**91,591**	62,157
Effect of foreign exchange rate changes		**(1,710)**	654
Cash and cash equivalents at 31 December	20(a)	**95,886**	91,591

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.

The notes on pages 73 to 169 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These 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. These 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 ("Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment properties (see note 1(g)); and

– debt and equity investments (see note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 33.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and non-controlling interests *(continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

In the Company's statement of financial position, an interest in a subsidiary is stated at cost less any impairment losses (see note 1(k)(ii)).

(d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(k)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate.

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates *(continued)*

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)).

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 1(k)(ii)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 28(f). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investment other than equity investments

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 (see note 1(u)(iii)).

– fair value through other comprehensive income ("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.

– fair value at profit or loss ("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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other investments in debt and equity securities *(continued)*

(A) Policy applicable from 1 January 2018 (continued)

Equity investments

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 earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

(B) Policy applicable prior to 1 January 2018

Investments in debt and equity securities were initially stated at fair value, which was their transaction price unless it was determined that the fair value at initial recognition differed from the transaction price and that fair value was evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that used only data from observable markets. Cost included attributable transaction costs. These investments were subsequently accounted for as follows, depending on their classification:

Other investments in securities were classified as available-for-sale securities. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss and other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that did not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured were recognised in the statement of financial position at cost less impairment losses (see note 1(k)(i) – policy applicable prior to 1 January 2018). Dividend income from equity securities was recognised in profit or loss. Interest income from debt securities calculated using the effective interest method was recognised in profit or loss in accordance with the policy set out in note 1(u)(iii). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities were also recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other investments in debt and equity securities *(continued)*

(B) Policy applicable prior to 1 January 2018 (continued)

When the investments were derecognised or impaired (see note 1(k)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss. Investments were recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(u)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

(h) Other property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)(ii)):

– land and buildings held for own use; and

– other items of plant and equipment.

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Other property, plant and equipment *(continued)*

If land and buildings held for own use becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at that date of transfer is recognised in profit or loss and other comprehensive income and accumulated in land and buildings revaluation reserve. On subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

(i) Land and buildings held for own use are depreciated over the unexpired term of lease.

(ii) Freehold land is not depreciated.

(iii) Other items of plant and equipment are at the following rates:

Plant and machinery	20% to 25% per annum
Furniture and fixtures	20% to 25% per annum
Moulds and tools	10% to 30% per annum
Motor vehicles and pleasure craft	10% to 30% per annum

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)(ii)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Club memberships	20 years
– Licensing rights	3 to 5 years

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group or taken over from the previous lessee.

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leased assets *(continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(g)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to an associate).

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 *(continued)*

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease-receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 *(continued)*

Significant increases in credit risk *(continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling) for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 1(u)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 *(continued)*

Basis of calculation of interest income *(continued)*

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as FVPL.

Investments in debt and equity securities and other current and non-current receivables that were stated at cost or amortised cost or were classified as available-for-sale securities were reviewed at the end of each reporting period to determine whether there was objective evidence of impairment. Objective evidence of impairment included observable data that came to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

(B) Policy applicable prior to 1 January 2018 *(continued)*

If any such evidence existed, any impairment loss was determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss was measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost were not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting was material. The assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristic similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

(B) Policy applicable prior to 1 January 2018 *(continued)*

– For available-for-sale securities, the cumulative loss that had been recognised in the fair value reserve was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in profit or loss and other comprehensive income.

Impairment losses in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

Impairment losses were written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery was considered doubtful but not remote. In this case, the impairment losses for doubtful debts were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt were reversed. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than investment properties carried at revalued amounts);

– intangible assets;

– goodwill;

– interest in associates; and

– interest in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(k)(i)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 1(k)(i).

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(u)(i)). A. contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(m)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

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

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in profit or loss and other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in profit or loss and other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to interest in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax *(continued)*

The carrying amount of a deferred tax asset is reviewed at end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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, whose existence 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.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

In the comparative period, revenue from sales of goods was recognised when the goods were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Revenue and other income *(continued)*

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(k)(i)).

(iv) Air-conditioning, management and maintenance service charges from tenants

Air-conditioning, management and maintenance service charges from tenants is recognised when the related services are rendered.

(v) Material charges

Material charges are recognised when the right to receive payment is established.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statements of financial position items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in profit or loss and other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Related parties

(1) 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 the key management personnel of the Group or the Group's parent.

(2) An entity is related to the Group if any of the following conditions applies:

(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 employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(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 Group'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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 CHANGES IN ACCOUNTING POLICIES

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(a) 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)*

(a) 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.

	HK$'000
Retained profits	
Transferred from fair value reserve relating to financial assets now measured at FVPL	5,102
Net increase in retained profits at 1 January 2018	5,102

	HK$'000
Fair value reserve	
Transferred to retained profits relating to financial assets now measured at FVPL	(5,102)
Net decrease in fair value reserve at 1 January 2018	(5,102)

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

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

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

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at 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.

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.

Notes to the Financial Statements *(Continued)*

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

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

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

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.

	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 *(Note)*	28,828	(28,828)	**–**
Financial assets carried at FVPL			
– Units in bond funds	–	3,096	**3,096**
– Equity securities not held for trading	–	25,732	**25,732**
	–	28,828	**28,828**

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.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

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

(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.

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

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs front 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.

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.

Presentation of contract liabilities

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

The principal activities of the Group are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment and investment holding.

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

	2018	2017
	HK$'000	*HK$'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

Disaggregation of revenue from contracts with customers by geographic market is disclosed in note 10(c).

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. Details of concentrations of credit risk arising from this customer are set out in note 28(a).

Further details regarding the Group's principal activities are disclosed in note 10 to these financial statements.

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	**448**	519
	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	**5,801**	3,558
	2,169	26,078

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

Notes to the Financial Statements *(Continued)*

5 PROFIT BEFORE TAXATION

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

	2018	2017
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank loans and other borrowings *(note 20(c))*	**7,781**	7,152
(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)	**20,977**	18,422
	220,355	232,977
(c) Other operating expenses		
Other operating expenses for the year included:		
Amortisation of intangible assets *(note 12)*	**643**	732
Addition/(reversal) of impairment losses of		
– property, plant and equipment *(note 11)*	**317**	3,133
– trade debtors *(note 28(a))*	**(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	**13,251**	12,560

5 PROFIT BEFORE TAXATION *(continued)*

(d) Other items

	2018	2017
	HK$'000	*HK$'000*
Depreciation *(note 11)*		
– 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 *(note 18(b))*	**417,153**	484,390
Rental receivable from investment properties less direct outgoings of HK$4,551,000 (2017: HK$4,209,000)	**(46,855)**	(48,194)

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

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.

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

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

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 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%).

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

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation	**215,805**	354,763
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	**(856)**	(3,713)
Actual tax expense	**34,401**	26,956

7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018				
	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:					
Kenneth Ting Woo-shou	100	2,040	–	204	2,344
Nancy Ting Wang Wan-sun	80	–	1,000	–	1,080
Ivan Ting Tien-li	70	1,080	–	108	1,258
Non-executive directors:					
Moses Cheng Mo-chi	70	–	–	–	70
Bernie Ting Wai-cheung	80	–	–	–	80
Independent non-executive directors:					
Floyd Chan Tsoi-yin	120	–	–	–	120
Andrew Yao Cho-fai	120	–	–	–	120
Desmond Chum Kwan-yue	120	–	–	–	120
Ronald Montalto	90	–	–	–	90
	850	3,120	1,000	312	5,282

7 DIRECTORS' EMOLUMENTS *(continued)*

	2017				
	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:					
Kenneth Ting Woo-shou	100	2,040	–	204	2,344
Nancy Ting Wang Wan-sun	80	–	2,000	–	2,080
Non-executive directors:					
Ivan Ting Tien-li	70	–	–	–	70
Moses Cheng Mo-chi	70	–	–	–	70
Bernie Ting Wai-cheung	80	–	–	–	80
Independent non-executive directors:					
Floyd Chan Tsoi-yin	120	–	–	–	120
Andrew Yao Cho-fai	120	–	–	–	120
Desmond Chum Kwan-yue	120	–	–	–	120
Ronald Montalto	90	–	–	–	90
	850	2,040	2,000	204	5,094

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors whose emoluments are set out in note 7. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Salaries and other emoluments	**6,836**	6,096
Retirement scheme contributions	**161**	156
	6,997	6,252

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The emoluments of the three (2017: three) individuals with the highest emoluments are within the following bands:

	2018	2017
	HK$'000	*HK$'000*
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–

9 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.

10 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 presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

10 SEGMENT REPORTING *(continued)*

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 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) Segment results, assets and liabilities

For the purposes 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.

10 SEGMENT REPORTING *(continued)*

(a) 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

10 SEGMENT REPORTING *(continued)*

(b) 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	**(1,195)**	(1,195)
Consolidated revenue *(note 3)*	**663,688**	823,451
Profit		
Reportable segment profit	**78,053**	168,986
Elimination of inter-segment profit	**–**	–
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 of associates	**25,593**	10,323
Surplus on revaluation of investment properties	**142,888**	186,372
Unallocated head office and corporate expenses	**–**	(629)
Consolidated profit before taxation	**215,805**	354,763
Assets		
Reportable segment assets	**2,856,805**	2,656,015
Elimination of inter-segment receivables	**(363,421)**	(265,180)
	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	**95,886**	91,591
Consolidated total assets	**2,734,354**	2,613,916

10 SEGMENT REPORTING *(continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(continued)*

	2018	2017
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**752,375**	687,005
Elimination of inter-segment payables	**(363,421)**	(265,180)
	388,954	421,825
Current tax payable	**26,695**	41,724
Deferred tax liabilities	**23,603**	19,905
Unallocated head office and corporate liabilities	**–**	159
Consolidated total liabilities	**439,252**	483,613

(c) 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.

10 SEGMENT REPORTING (continued)

(c) Geographic information *(continued)*

	Revenue from external customers		**Specified non-current assets**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**52,145**	60,139	**2,048,111**	1,863,574
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	**4,155**	119	**5,404**	–
	611,543	763,312	**147,304**	143,907
	663,688	823,451	**2,195,415**	2,007,481

Notes to the Financial Statements *(Continued)*

11 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings held for own use carried at cost		Other items of plant and equipment		Investment properties	
	In Hong Kong	Outside Hong Kong		Sub-total	In Hong Kong	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:						
At 1 January 2017	71,146	35,445	751,440	858,031	1,616,473	2,474,504
Exchange adjustments	–	1,589	8,320	9,909	–	9,909
Additions	–	29	20,726	20,755	–	20,755
Disposals	–	–	(17,007)	(17,007)	–	(17,007)
Surplus on revaluation	–	–	–	–	186,372	186,372
At 31 December 2017	71,146	37,063	763,479	871,688	1,802,845	2,674,533
Representing						
Cost	71,146	37,063	763,479	871,688	–	871,688
Valuation – 2017	–	–	–	–	1,802,845	1,802,845
	71,146	37,063	763,479	871,688	1,802,845	2,674,533
At 1 January 2018	**71,146**	**37,063**	**763,479**	**871,688**	**1,802,845**	**2,674,533**
Exchange adjustments	**–**	**(922)**	**(5,948)**	**(6,870)**	**–**	**(6,870)**
Additions	**–**	**346**	**51,905**	**52,251**	**–**	**52,251**
Disposals	**–**	**–**	**(105,115)**	**(105,115)**	**–**	**(105,115)**
Surplus on revaluation	**–**	**–**	**–**	**–**	**142,888**	**142,888**
At 31 December 2018	**71,146**	**36,487**	**704,321**	**811,954**	**1,945,733**	**2,757,687**
Representing						
Cost	**71,146**	**36,487**	**704,321**	**811,954**	**–**	**811,954**
Valuation – 2018	**–**	**–**	**–**	**–**	**1,945,733**	**1,945,733**
	71,146	**36,487**	**704,321**	**811,954**	**1,945,733**	**2,757,687**

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings held for own use carried at cost		Other items of plant and equipment		Investment properties	
	In Hong Kong	Outside Hong Kong		Sub-total	In Hong Kong	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation and impairment:						
At 1 January 2017	12,321	19,272	695,879	727,472	–	727,472
Exchange adjustments	–	795	5,164	5,959	–	5,959
Charge for the year *(note 5(d))*	1,951	709	25,823	28,483	–	28,483
Impairment loss *(note 5(c))*	–	–	3,133	3,133	–	3,133
Written back on disposals	–	–	(16,751)	(16,751)	–	(16,751)
At 31 December 2017	14,272	20,776	713,248	748,296	–	748,296
At 1 January 2018	**14,272**	**20,776**	**713,248**	**748,296**	**–**	**748,296**
Exchange adjustments	**–**	**(484)**	**(3,571)**	**(4,055)**	**–**	**(4,055)**
Charge for the year *(note 5(d))*	**1,951**	**720**	**21,803**	**24,474**	**–**	**24,474**
Impairment loss *(note 5(c))*	**–**	**–**	**317**	**317**	**–**	**317**
Written back on disposals	**–**	**–**	**(102,405)**	**(102,405)**	**–**	**(102,405)**
At 31 December 2018	**16,223**	**21,012**	**629,392**	**666,627**	**–**	**666,627**
Net book value:						
At 31 December 2018	**54,923**	**15,475**	**74,929**	**145,327**	**1,945,733**	**2,091,060**
At 31 December 2017	56,874	16,287	50,231	123,392	1,802,845	1,926,237

11 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) Impairment loss of property, plant and equipment

During the year ended 31 December 2018, the Group assessed the recoverable amount of the Group's moulds and equipment and as a result, an impairment loss of HK$317,000 (2017: HK$3,133,000) was recognised to write down the carrying amount of certain moulds and equipment to their recoverable amount. The estimates of recoverable amount were based on the moulds' and equipment's value in use, determined by reference to anticipated future use.

(b) Fair value measurement of investment properties

	2018	2017
	HK$'000	*HK$'000*
Medium term leases at valuation:		
– In Hong Kong	**1,945,733**	1,802,845

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

11 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(b) Fair value measurement of investment properties *(continued)*

(i) Fair value hierarchy (continued)

	Fair value as at 31 December 2018	**Fair value measurements as at 31 December 2018 categorised into**		
		Level 1	**Level 2**	**Level 3**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurements				
Investment properties:				
– Industrial – Hong Kong	**1,945,733**	**–**	**–**	**1,945,733**

	Fair value as at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Investment properties:				
– Industrial – Hong Kong	1,802,845	–	–	1,802,845

During the year ended 31 December 2018 (2017: HK$Nil), there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: HK$Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2018. The valuations were carried out by an independent firm of surveyors, Cushman & Wakefield Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

11 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(b) Fair value measurement of investment properties *(continued)*

(ii) Information about Level 3 fair value measurements

	Valuation techniques	**Unobservable inputs**	**Range**	**Weighted average**
Investment properties – Industrial – Hong Kong	Income capitalisation approach	Market rental value	HK$13.3 to 14.5/sq. foot/ month (2017: HK$12.9 to 14.0/sq. foot/ month)	HK$12.7/ sq. foot/ month (2017: HK$13.3/sq. foot/month)
		Capitalisation rate	3.30% (2017: 3.45%)	3.30% (2017: 3.45%)
Investment properties – Industrial – Hong Kong	Direct comparison approach	Premium (discount) on quality of the buildings	(5%) to 5% (2017: (5%) to 5%)	0% (2017: 0%)

The fair value of investment properties located in Hong Kong is determined on an open market value basis, by either making reference to the comparable sales evidence in the relevant locality, or otherwise, by capitalising the current rent derived from the existing tenancies with the provision for any reversionary income potential.

The capitalisation rate used in income capitalisation approach has been adjusted for the expected market rental growth, occupancy rate and quality and location of the buildings. The fair value measurement is positively correlated to the market rental value and negatively correlated to the risk-adjusted capitalisation rate.

The premium or discount used in direct comparison approach is specific to the building compared to the recent sales. High premium for higher quality buildings will result in a high fair value measurement.

11 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(b) Fair value measurement of investment properties *(continued)*

(ii) Information about Level 3 fair value measurements (continued)

The movements in the balance of these Level 3 fair value measurements during the year are as follows:

	2018	2017
	HK$'000	*HK$'000*
Investment properties – Industrial – Hong Kong:		
At 1 January	**1,802,845**	1,616,473
Fair value adjustment	**142,888**	186,372
At 31 December	**1,945,733**	1,802,845

Fair value adjustment of investment properties is recognised in the line item "surplus on revaluation of investment properties" in the consolidated statement of profit or loss.

All the gains recognised in profit and loss for the year arose from the properties held at the end of the reporting period.

(c) The analysis of net book value of other properties is as follows:

	2018	2017
	HK$'000	*HK$'000*
Medium-term leases in Hong Kong	**54,923**	56,874
Freehold outside Hong Kong	**15,475**	16,287
	70,398	73,161

(d) Assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years. None of the leases includes contingent rentals.

The carrying amount of the investment properties of the Group held for use in operating leases was HK$1,945,733,000 (2017: HK$1,802,845,000). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

Notes to the Financial Statements *(Continued)*

11 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(d) Assets leased out under operating leases *(continued)*

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**24,863**	40,133
After 1 year but within 5 years	**–**	9,846
	24,863	49,979

(e) Secured assets

Investment properties and land and buildings of the Group with total carrying values of HK$1,793,533,000 (2017: HK$1,507,445,000) and HK$62,943,000 (2017: HK$73,161,000) respectively, were pledged to various banks to secure banking facilities granted to the Group (see note 22).

12 INTANGIBLE ASSETS

	Licensing	**Club membership**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2017	5,567	868	6,435
Exchange adjustments	545	–	545
At 31 December 2017	6,112	868	6,980
At 1 January 2018	**6,112**	**868**	**6,980**
Exchange adjustments	**(316)**	**–**	**(316)**
At 31 December 2018	**5,796**	**868**	**6,664**

12 INTANGIBLE ASSETS *(continued)*

	Licensing *HK$'000*	Club membership *HK$'000*	Total *HK$'000*
Accumulated amortisation:			
At 1 January 2017	4,354	402	4,756
Exchange adjustments	451	–	451
Charge for the year *(note 5(c))*	699	33	732
At 31 December 2017	5,504	435	5,939
At 1 January 2018	**5,504**	**435**	**5,939**
Exchange adjustments	**(317)**	**–**	**(317)**
Charge for the year *(note 5(c))*	**609**	**34**	**643**
At 31 December 2018	**5,796**	**469**	**6,265**
Net book value:			
At 31 December 2018	**–**	**399**	**399**
At 31 December 2017	608	433	1,041

The amortisation charge for the year is included in "other operating expenses" in the consolidated statement of profit or loss.

Notes to the Financial Statements *(Continued)*

13 INTEREST IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of operation	Place of incorporation/ establishment	Particulars of issued and paid up capital (all being ordinary shares except where otherwise stated)	Proportion of ownership interest held by		Principal activities
				The Company	A subsidiary	
Bachmann Asia Limited	Hong Kong	Hong Kong	2 shares	–	100%	Agent for sale of toys
Bachmann (China) Limited	PRC	Hong Kong	10,000 shares	–	100%	Trading of toys
Bachmann Trading (Shanghai) Limited	PRC	PRC	Registered capital RMB500,000	–	100%	Trading of toys
Bachmann Europe Plc	UK	UK	2,050,000 shares of £1 each	100%	–	Trading of toys
Bachmann Industries, Inc.	United States of America ("USA")	USA	4,010,100 shares of US$1 each	–	100%	Trading of toys
Deltahill Company Limited	Hong Kong	Hong Kong	100 shares and 1,001,000 non-voting deferred shares	–	100%	Provision of management services
Dongguan Feng Da Electronics Company Limited *(Note 1)*	PRC	PRC	Registered capital HK$8,000,000	–	100%	Manufacture of toys
Globe Fame Group Limited	British Virgin Islands ("BVI")	BVI	1 share of US$1	100%	–	Investment holding
Faith World Development Limited	Hong Kong	Hong Kong	1 share of HK$1	100%	–	Property development and investment

13 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of operation	Place of incorporation/ establishment	Particulars of issued and paid up capital (all being ordinary shares except where otherwise stated)	Proportion of ownership interest held by		Principal activities
				The Company	A subsidiary	
Great Hope Investment Limited	BVI	BVI	1 share of US$1	100%	–	Investment holding
Kader Industrial Company Limited	Hong Kong	Hong Kong	412,532,000 shares	100%	–	Manufacture and trading of toys, and property investment
K Cellars (Hong Kong) Limited	Hong Kong	Hong Kong	1,000 shares	–	100%	Sub-letting of wine cellar
Dongguan Hop Pong Precise Moulds Company Limited *(Note 2)*	PRC	PRC	Registered capital RMB$4,800,000	–	52%	Manufacture and sale of moulds
Sanda Kan (Cayman III) Holdings Company Limited	Cayman Island	Cayman Island	1,000,000 shares of US$0.01 each	100%	–	Investment holding
Sanda Kan (Mauritius) Holdings Company Limited	The Republic of Mauritius	The Republic of Mauritius	100 shares of US$0.01 each	–	100%	Investment holding
Technic International Development Limited	Hong Kong	Hong Kong	1 share	–	100%	Investment holding

Notes:

1 These companies are wholly-owned foreign enterprises registered in the PRC.

2 These companies are co-operative joint ventures registered in PRC.

Notes to the Financial Statements *(Continued)*

14 INTEREST IN ASSOCIATES AND LOANS TO AN ASSOCIATE

	2018	2017
	HK$'000	*HK$'000*
Non-current assets		
Share of net assets	**49,108**	23,515
Amounts due from associates	**40,140**	40,537
	89,248	64,052
Current assets		
Loans to an associate	**19,336**	27,033
Less: impairment loss	**(1,159)**	(1,159)
	18,177	25,874

Amounts due from associates are unsecured, interest-free and repayable on demand. The Group does not intend to seek repayment thereof within 12 months of the end of the reporting period.

At 31 December 2018, loans to an associate amounting to HK$12,090,000 (2017: HK$20,397,000) are unsecured, interest-bearing at 5% to 10% per annum and are repayable within one year. Interest receivable amounted to HK$7,246,000 (2017: HK$6,636,000) as at 31 December 2018.

The following list contains the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available.

14 INTEREST IN ASSOCIATES AND LOANS TO AN ASSOCIATE *(continued)*

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by a subsidiary	Held by an associate	Principal activities
Allman Holdings Limited	Incorporated	BVI	1,440 shares of US$1 each	36.1%	36.1%	–	Investment holding
Pacific Squaw Creek, Inc.	Incorporated	USA	1,000 shares of US$1 each	36.1%	–	100.0%	Investment holding
Redwood Ventures Limited	Incorporated	Hong Kong	3,101,000 shares	40.0%	40.0%	–	Trading of toys
Squaw Creek Associates, LLC ("SCA")	Limited liability company	USA	Note	37.4%	15.0%	62.0%	Resort operation, and the sale and management of condominium apartments

Note:

SCA does not have issued share capital, the interest in SCA represents the interest in capital account balance.

All of the above associates are accounted for using the equity method in the consolidated financial statements and considered not to be individually material.

14 INTEREST IN ASSOCIATES AND LOANS TO AN ASSOCIATE *(continued)*

Summary financial information on associates

	Assets	Liabilities	Equity	Revenue	Profit
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2018					
Group's effective interest	**339,183**	**(212,251)**	**126,932**	**307,308**	**25,593**
2017					
Group's effective interest	305,211	(208,809)	96,402	172,798	10,323

15 DEPOSITS AND PREPAYMENTS

At 31 December 2018, deposits and prepayments for property, plant and equipment are expected to be recognised as property, plant and equipment in the future and classified as non-current assets.

16 OTHER FINANCIAL ASSETS

	2018	2017
	HK$'000	*HK$'000*
Non-current assets		
Other financial assets *(note 28(f)(i))*:		
– equity securities listed at FVPL outside Hong Kong	**3,036**	–
– equity securities unlisted at FVPL outside Hong Kong	**7,999**	–
– debt securities at FVPL listed in Hong Kong	**794**	–
– debt securities at FVPL listed outside Hong Kong	**2,112**	–
	13,941	–
Available-for-sale equity securities *(note 16(a))*:		
– Listed in Hong Kong	**–**	9,631
– Listed outside Hong Kong	**–**	6,655
– Unlisted outside Hong Kong	**–**	9,446
	–	25,732

16 OTHER FINANCIAL ASSETS *(continued)*

	2018	2017
	HK$'000	*HK$'000*
Available-for-sale debt securities *(note 16(a))*:		
– Listed in Hong Kong	**–**	812
– Listed outside Hong Kong	**–**	2,284
	–	3,096
	13,941	28,828
Current assets		
Other financial assets		
– Financial asset measured at amortised cost	**5,000**	–

(a) Available-for-sale securities were reclassified to financial assets measured at FVPL upon initial application of HKFRS 9 at 1 January 2018 (see note 2).

17 TRADING SECURITIES

	2018	2017
	HK$'000	*HK$'000*
Listed equity securities at FVPL *(note 28(f)(i))*		
– in Hong Kong	**8,016**	–
– outside Hong Kong	**2,788**	–
	10,804	–

Notes to the Financial Statements *(Continued)*

18 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**26,225**	24,400
Work in progress	**22,401**	20,866
Finished goods	**211,821**	229,429
	260,447	274,695

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows *(note 5(d))***:**

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

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

19 TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade debtors, net of loss allowance	**95,234**	143,022
Amounts due from related companies	**2,051**	2,103
Deposits and prepayments	**29,884**	28,627
	127,169	173,752

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

19 TRADE AND OTHER RECEIVABLES *(continued)*

Amounts due from related companies are unsecured, interest-free and repayable on demand. The related companies have a common director and shareholder with the Company.

Ageing analysis

As at the end of the reporting period, 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	2017
	HK$'000	*HK$'000*
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	**1,225**	1,008
	95,234	143,022

Trade debtors are due within 90 days from the date of billing. Further details on the Group's credit policy are set out in note 28(a).

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018	2017
	HK$'000	*HK$'000*
Deposits with banks and other financial institutions	**226**	1,132
Cash at bank and on hand	**95,660**	90,459
Cash and cash equivalents in the consolidated cash flow statements	**95,886**	91,591

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2018** **HK$'000**	2017 HK$'000 (Note)
Profit before taxation		**215,805**	354,763
Adjustments for:			
Surplus on revaluation of investment properties	*11*	**(142,888)**	(186,372)
Depreciation	*11*	**24,474**	28,483
Amortisation of intangible assets	*12*	**643**	732
Impairment of property, plant and equipment	*11*	**317**	3,133
Finance costs	*5(a)*	**7,781**	7,152
Interest income	*4*	**(1,841)**	(2,034)
Share of profits less losses of associates	*14*	**(25,593)**	(10,323)
Net gain on disposal of property, plant and equipment	*4*	**(479)**	(1,078)
Net realised and unrealised loss on trading securities	*4*	**1,832**	–
Net realised and unrealised loss on investments not held for trading	*4*	**2,972**	–
Reclassification from equity on disposal of available-for-sale securities	*4*	**–**	(349)
Foreign exchange loss		**5,412**	5,791
Changes in working capital:			
Decrease in inventories		**14,248**	18,331
Decrease/(increase) in trade and other receivables		**46,583**	(30,280)
Decrease in trade and other payables and contract liabilities (excluding rental deposits)		**(20,261)**	(6,746)
Decrease in deferred rental expenses		**(61)**	(78)
Increase/(decrease) in rental deposits received		**2,198**	(856)
Increase/(decrease) in accrued employee benefits		**70**	(229)
Cash generated from operations		**131,212**	180,040

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.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans *HK$'000* *(Note 22)*
As at 1 January 2017	329,585
Changes from financing cash flows:	
Proceeds from new bank loans	212,524
Repayment of bank loans	(259,196)
Interest paid	(7,152)
Total changes from financing cash flows	(53,824)
Other change:	
Interest on bank loans and other borrowings *(note 5(a))*	7,152
As at 31 December 2017 and 1 January 2018	282,913
Changes from financing cash flows:	
Proceeds from new bank loans	338,440
Repayment of bank loans	(353,416)
Interest paid	(7,781)
Total changes from financing cash flows	(22,757)
Other change:	
Interest on bank loans and other borrowings *(note 5(a))*	7,781
As at 31 December 2018	267,937

21 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	31 December 2018	1 January 2018*(i)*	31 December 2017*(i)*
	HK$'000	*HK$'000*	*HK$'000*
Trade and other payable			
Creditors and accrued charges	**102,503**	117,442	124,067
Rental deposits	**11,459**	4,613	4,613
Amount due to a related company	**928**	929	929
	114,890	122,984	129,609
Contract liabilities			
Forward sales deposits *(ii)*	**1,304**	6,625	–
	116,194	129,609	129,609

Notes:

(i) The company has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Comparative information has not been restated.

(ii) Upon the adoption of HKFRS 15, these amounts were reclassified from trade and other payables to contract liabilities. Trade and other payables and contract liabilities are aggregated into a single line item "Trade and other payables and contract liabilities" on the face of the statement of financial position (see note 2).

(a) Trade and other payables

All of the trade and other payables, except for the amount due to a related company, are expected to be settled or recognised as income within one year or are repayable on demand.

Amount due to a related company is unsecured, interest-free and repayable on demand. The related company has a common director and shareholder with the Company.

21 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES *(continued)*

(a) Trade and other payables *(continued)*

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
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	**904**	979
	33,186	32,964

(b) Contract liabilities

Typical payment terms which impact on the amounts of contract liabilities recognised are as follows:

The Group receives advances from certain customers for sale of goods when they sign sale and purchase agreement. These advances are recognised as contract liabilities until the customers take possession of and accepts the products.

Movements in contract liabilities

	2018
	HK$'000
Balance at 1 January	**6,625**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(6,567)**
Increase in contract liabilities as a result of receiving forward sales deposits during the year	**1,296**
Exchange adjustments	**(50)**
Balance at 31 December	**1,304**

The amount of forward sales deposits received are expected to be recognized as income within one year.

22 BANK LOANS

At 31 December 2018, the bank loans were repayable as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 year or on demand	**267,937**	279,795
After 1 year but within 2 years	**–**	600
After 2 years but within 5 years	**–**	1,962
After 5 years	**–**	556
	–	3,118
	267,937	282,913

At 31 December 2018 and 2017, all bank loans were secured.

At 31 December 2018, investment properties and leasehold land and buildings of the Group with aggregate net carrying value of HK$1,856,476,000 (2017: HK$1,580,606,000) were pledged to various banks to secure the bank loans and overdrafts granted to the Group. Details of the secured assets are as follows:

	2018	2017
	HK$'000	*HK$'000*
Investment properties *(note 11(e))*	**1,793,533**	1,507,445
Land and buildings *(note 11(e))*	**62,943**	73,161
	1,856,476	1,580,606

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's or relevant subsidiaries' financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand.

At 31 December 2018 and 31 December 2017, none of the covenants relating to drawn down facilities has been breached.

Further details of the Group's management of liquidity risk are set out in note 28(b).

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2018	2017
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	**17,346**	25,690
Provisional Profits Tax paid	**(18,202)**	(19,403)
	(856)	6,287
Provision for tax outside Hong Kong	**26,530**	35,375
	25,674	41,662
Representing:		
Current tax recoverable	**1,021**	62
Current tax payable	**(26,695)**	(41,724)
	(25,674)	(41,662)

In October 2016, a PRC municipal office of State Administration of Taxation ("tax authority") raised enquiries in relation to Corporate Income Tax of a subsidiary of the Group in relation to the years from 2008 to 2015. Whilst the subsidiary has submitted certain required information to the tax authority, the case is still on-going and no conclusion has been reached. Owing to the uncertainty inherent in the case of this nature, the final outcome may result in an impact to the Group's provision for tax outside Hong Kong in the period in which conclusion is made.

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates the tax implications of the transactions conducted, and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account changes in tax legislation, and interpretation thereof. Where the final outcome is different from the current assessment, the income tax provisions recognised could be affected.

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation *HK$'000*	**Revaluation of land and buildings** *HK$'000*	**Provisions and allowances** *HK$'000*	**Total** *HK$'000*
Deferred tax arising from:				
At 1 January 2017	11,183	10,587	(9,985)	11,785
Credited to profit or loss *(note 6(a))*	(1,865)	–	(1,648)	(3,513)
At 31 December 2017	9,318	10,587	(11,633)	8,272
At 1 January 2018	**9,318**	**10,587**	**(11,633)**	**8,272**
Charged to profit or loss *(note 6(a))*	**4,066**	**–**	**4,771**	**8,837**
At 31 December 2018	**13,384**	**10,587**	**(6,862)**	**17,109**

(ii) Reconciliation to the consolidated statement of financial position

	2018 ***HK$'000***	2017 *HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**6,494**	11,633
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(23,603)**	(19,905)
	(17,109)	(8,272)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$311,915,000 (2017: HK$342,892,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses of the Group amounting to HK$36,279,000 (2017: HK$36,136,000) does not expire under current tax legislation, while the remaining tax losses amounting to HK$275,636,000 (2017: HK$306,756,000) will expire at various dates up to and including 2038 as follows:

	2018 HK$'000	2017 HK$'000
Expiring in year:		
2018	–	48,736
2019	7,138	7,138
2020	29,720	29,720
2021	35,417	35,416
2022	630	630
2023	455	–
2028	17,040	17,040
2029	31,233	31,233
2030	29,250	29,250
2031	31,900	31,900
2032	16,265	16,265
2033	642	642
2034	397	397
2035	19,830	19,830
2036	29,081	29,081
2037	9,478	9,478
2038	17,160	–
	275,636	306,756
No expiry date	36,279	36,136
	311,915	342,892

Notes to the Financial Statements *(Continued)*

24 DEFERRED RENTAL EXPENSES

Deferred rental expenses represent lease incentives received by the Group in respect of operating leases. It is credited to profit or loss in equal instalments over the accounting periods covered by the lease terms.

25 RENTAL DEPOSITS

Rental deposits represent amount of rental deposits received which are expected to be settled after more than one year.

26 ACCRUED EMPLOYEE BENEFITS

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**22**	251
Additional provision made	**70**	–
Provision utilised	**–**	(229)
	92	22

Accrued employee benefits represent provision for long service payments in respect of the Group's employees on termination of employment in accordance with the Hong Kong Employment Ordinance.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2017		95,059	185,138	9,347	175,594	411,066	876,204
Changes in equity for 2017:							
Loss and total comprehensive income for the year		–	–	–	–	(1,247)	(1,247)
Dividend approved in respect of the previous year	27(b)(ii)	–	–	–	–	(14,259)	(14,259)
Balance at 31 December 2017 and 1 January 2018		**95,059**	**185,138**	**9,347**	**175,594**	**395,560**	**860,698**
Changes in equity for 2018:							
Profit and total comprehensive income for the year		**–**	**–**	**–**	**–**	**104,960**	**104,960**
Dividend approved in respect of the previous year	27(b)(ii)	**–**	**–**	**–**	**–**	**(19,012)**	**(19,012)**
Balance at 31 December 2018		**95,059**	**185,138**	**9,347**	**175,594**	**481,508**	**946,646**

27 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

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

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.

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

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

(c) Issued share capital

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

27 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Issued share capital *(continued)*

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

The capital reserve arose from acquisitions of subsidiaries and associates prior to 1 January 2001, where the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition was credited to the capital reserve.

(iii) Contributed surplus

The contributed surplus may be utilised in accordance with the Bye-laws and other relevant laws of Bermuda, being the place of incorporation of the Company.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(v).

(v) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings set out in note 1(h).

(vi) Fair value reserve

Prior to 1 January 2018, the fair value reserve comprised the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period in accordance with HKAS 39 and was dealt with in accordance with the accounting policies set out in notes 1(f) and 1(k)(i) – policy applicable prior to 1 January 2018.

Notes to the Financial Statements *(Continued)*

27 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$657,102,000 (2017: HK$571,154,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables and rental deposits) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

The Group's strategy was to maintain the adjusted net debt-to-capital ratio under 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

27 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

The Group's adjusted net debt-to-capital ratios at 31 December 2018 and 2017 were as follows:

	2018	2017
	HK$'000	*HK$'000*
Current liabilities:		
Trade and other payables and contract liabilities	**116,194**	129,609
Bank loans	**267,937**	279,795
	384,131	409,404
Non-current liabilities:		
Bank loans	**–**	3,118
Rental deposits	**1,025**	5,673
	1,025	8,791
Total debt	**385,156**	418,195
Add: proposed dividends	**9,506**	19,012
Less: cash and cash equivalents	**(95,886)**	(91,591)
Adjusted net debt	**298,776**	345,616
Total equity	**2,295,102**	2,130,303
Less: proposed dividends	**(9,506)**	(19,012)
Adjusted capital	**2,285,596**	2,111,291
Adjusted net debt-to-capital ratio	**13.1%**	16.4%

The Group is subject to the fulfilment of certain covenants which include maintaining its adjusted net debt-to-capital ratio below 100%. Except for the above, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables, investments in securities and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Normally, the Group does not obtain collateral from customers in its toys and model trains business. In respect of the Group's property investment business, deposits of two to three months' rent are normally required from lessees.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentration of credit risk primarily arises when the Group has significant exposure to individual customers. At the end of the reporting period, 42.84% (2017: 37.48%) and 62.64% (2017: 50.54%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(a) Credit risk *(continued)*

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Placement of bank deposits are normally with counterparties that have sound credit ratings.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss	Gross carrying amount	Loss allowance
	%	*HK$'000*	*HK$'000*
Neither past due nor impaired	2.0%	74,899	1,529
Less than 1 month past due	5.0%	19,053	949
1 to 3 months past due	6.5%	1,899	124
More than 3 months but less than 12 months past due	8.8%	990	87
More than 12 months past due	68.7%	3,455	2,373
		100,296	5,062

Expected loss rates are based on actual loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(a) Credit risk *(continued)*

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(k)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of HK$7,599,000 was individually determined to be impaired. The individually impaired receivables related to customers with which the Group no longer conducts business and management assessed that these receivables are not recoverable. Consequently, specific allowances for doubtful debts of HK$5,062,000 (2017: HK$6,434,000) were recognised. The Group does not hold any collateral over these balances.

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**73,056**	116,381
Less than 1 month past due	**18,105**	14,454
1 to 3 months past due	**1,775**	10,261
More than 3 months but less than 12 months past due	**902**	761
More than 12 months past due	**11**	–
	20,793	25,476
	93,849	141,857

Receivables that are neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(a) Credit risk *(continued)*

Comparative information under HKAS 39 (continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
At the beginning of the year	**6,434**	8,886
Exchange adjustments	**(6)**	(7)
Amounts written off during the year	**(484)**	(4,104)
(Reversal)/addition of impairment losses during the year *(note 5(c))*	**(882)**	1,659
At the end of the year	**5,062**	6,434

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management including the short term investment of cash surpluses. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

For the term loans subject to repayment on demand clauses which can be exercised at the lender's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lenders were to invoke to unconditional rights to call the loans with immediate effect.

Notes to the Financial Statements *(Continued)*

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

	2018 Total contractual undiscounted cash outflow							2017 Total contractual undiscounted cash outflow						
	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years	Total	Carrying amount	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years	Total	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Creditors and accrued charges	-	102,503	-	-	-	102,503	102,503	–	117,442	–	–	–	117,442	117,442
Amount due to a related company	-	928	-	-	-	928	928	–	929	–	–	–	929	929
Rental deposits	-	11,459	1,025	-	-	12,484	12,484	–	4,613	5,673	–	–	10,286	10,286
Bank loans	-	262,268	11,392	2,637	-	276,297	267,937	–	252,538	33,963	2,998	564	290,063	282,913
	-	377,158	12,417	2,637	-	392,212	383,852	–	375,522	39,636	2,998	564	418,720	411,570
Adjustments to present cash flows on bank loans based on lender's right to demand repayment	267,937	(262,268)	(11,392)	(2,637)	-	(8,360)		279,221	(251,815)	(33,240)	(835)	–	(6,669)	
	267,937	114,890	1,025	-	-	383,852		279,221	123,707	6,396	2,163	564	412,051	

As shown in the above analysis, bank loans of the Group amounting to HK$262,268,000 are due to be repaid during 2019. The short-term liquidity risk inherent in this contractual maturity date was addressed at the time the loans were drawn. The Group will in due course commence refinancing of its bank loans which are due for maturity in December 2019. Based on the Group's past ability to financing and good relationship with a number of financial institutions, the Group expects to have adequate source of funding to finance and manage its liquidity position.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank borrowings. Bank borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group monitors the level of its variable rate borrowings and manages the contractual terms of the interest-bearing financial assets and liabilities. For this purpose the Group defines "net borrowings" as being interest-bearing financial liabilities less interest-bearing investments (excluding cash held for short-term working capital purposes). The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (as defined above) at the end of the reporting period.

		2018		2017	
	Note	**Effective interest rate**	**Amount**	Effective interest rate	Amount
		%	***HK$'000***	%	*HK$'000*
Variable rate borrowings:					
Bank loans	*22*	**3.41**	**267,937**	2.49	282,913

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately HK$2,237,000 (2017: HK$2,357,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for 2017.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars ("USD"), Renminbi Yuan ("RMB") Sterling Pounds ("GBP") and Japanese Yen ("JPY").

The Group's operations outside Hong Kong do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the operations outside Hong Kong for use within the respective operations.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2018			
	USD	***RMB***	***GBP***	***JPY***
	'000	***'000***	***'000***	***'000***
Trade and other receivables	**290**	**397**	**–**	**–**
Cash and cash equivalents	**559**	**184**	**515**	**39,624**
Trade and other payables	**(35)**	**(1,335)**	**–**	**–**
Other financial assets	**762**	**–**	**–**	**39,564**
Net exposure arising from recognised assets and liabilities	**1,576**	**(754)**	**515**	**79,188**
HK$ equivalent	**12,297**	**(857)**	**5,094**	**5,580**

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Currency risk *(continued)*

(i) Exposure to currency risk (continued)

	2017			
	USD	*RMB*	*GBP*	*JPY*
	'000	*'000*	*'000*	*'000*
Trade and other receivables	296	833	–	–
Cash and cash equivalents	333	603	678	252
Trade and other payables	(92)	(1,316)	–	(80)
Other financial assets	1,789	–	–	73,226
Net exposure arising from recognised assets and liabilities	2,326	120	678	73,398
HK$ equivalent	18,143	143	7,077	5,058

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HKD and USD would be materially unaffected by any changes in movement in value of USD against other currencies.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis (continued)

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after taxation and retained profits** *HK$'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit after taxation and retained profits *HK$'000*
RMB	**5%**	**(36)**	5%	6
	(5%)	**36**	(5%)	(6)
GBP	**5%**	**213**	5%	295
	(5%)	**(213)**	(5%)	(295)
JPY	**5%**	**233**	5%	211
	(5%)	**(233)**	(5%)	(211)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after taxation and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis has been performed on the same basis for 2017.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments held for trading and non-trading purposes (see notes 16&17). Other than the unquoted securities held for strategic purposes, all of these investments are listed.

The Group's listed investments are listed both in and outside Hong Kong. Listed investments that are not held for trading purposes have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

At 31 December 2018, it is estimated that changes in the relevant stock market indices (for listed investments) with all other variables held constant, would have increased/decreased the Group's profit after taxation (and retained profits) and other components of consolidated equity as follows:

	2018	
	Increase/ (decrease) in the relevant risk variable	Effect on profit after taxation and retained profits *HK$'000*
Stock market index in respect of listed investments:		
Hang Seng Index	14%	937
	(14%)	(937)
Nikkei 225	12%	279
	(12%)	(279)
S&P Global Natural Resources Index	16%	406
	(16%)	(406)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(e) Equity price risk *(continued)*

	2017	
	Increase/ (decrease) in the relevant risk variable	Effect on other components of equity *HK$'000*
Stock market index in respect of listed investments:		
Hang Seng Index	36%	3,466
	(36%)	(3,466)
Nikkei 225	19%	964
	(19%)	(964)
S&P Global Natural Resources Index	19%	303
	(19%)	(303)

The sensitivity analysis indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen assuming that the changes in the stock market indices had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market indices or the relevant risk variables, and that all other variables remain constant. The analysis has been performed on the same basis for 2017.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value as at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Other financial assets				
– Listed equity securities	3,036	3,036	–	–
– Listed debt securities	2,906	2,906	–	–
– Unlisted equity securities	7,999	–	7,999	–
	13,941	5,942	7,999	–
Trading securities				
– Listed equity securities	10,804	10,804	–	–
	24,745	16,746	7,999	–

Notes to the Financial Statements *(Continued)*

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(f) Fair value measurement *(continued)*

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy *(continued)*

	Fair value as at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Assets:				
Listed available-for-sale securities *(Note)*:				
– equity	16,286	16,286	–	–
– debt	3,096	3,096	–	–
Unlisted available-for-sale securities:				
– equity	9,446	–	9,446	–

Note: Available-for-sale financial assets were reclassified to financial assets measured at FVPL upon the adoption of HKFRS 9 at 1 January 2018 (see note 2).

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017.

29 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018	2017
	HK$'000	*HK$'000*
Contracted for	**8,665**	11,233

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings		**Others**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**6,165**	7,207	**244**	347
After 1 year but within 5 years	**2,016**	1,300	**222**	451
Over 5 years	**712**	–	**–**	–
	8,893	8,507	**466**	798

The Group is the lessee in respect of a number of properties and items of equipment under operating leases. The leases typically run for an initial period of two to three years, with an option to renew each lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

30 EMPLOYEE RETIREMENT BENEFITS

In Hong Kong, the Group operates a defined contribution pension scheme ("ORSO scheme") for all qualifying employees. Effective from 1 December 2000, all Hong Kong based employees were also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme was modified to provide extra benefits for existing and new employees. The amounts of employer's and employees' contributions to the ORSO scheme are reduced by the amount required to be paid to the MPF scheme. The contributions to the ORSO scheme are supplementary contributions, over and above the minimum MPF requirements. The assets of the ORSO scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the ORSO scheme, the employees are required to make contributions to the ORSO scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions vary with the number of years of service of the employees from 5% to 10% of the basic monthly salary. The employees are entitled to 100% of the employer's contributions to the ORSO scheme and the accrued interest after 10 complete years' service, or at an increasing scale of between 50% and 90% after completion of 5 to 9 years' service.

Where there are employees who leave the ORSO scheme prior to vesting fully in the contributions, in accordance with the rules of the ORSO scheme, the forfeited employer's contributions shall be used to reduce the future contributions of the employer.

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the retirement schemes of the Group that are attributable to contributions made by the Group.

Subsidiaries incorporated in the PRC participate in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to profit or loss when incurred.

30 EMPLOYEE RETIREMENT BENEFITS *(continued)*

Under the PRC Labour Contract Law, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to employees. The amount payable is dependent on the employees' final salary and years of service.

Employees in the United States of America are covered by a profit sharing plan under section 401(k) of the Internal Revenue Code covering all eligible employees. The plan provides for contributions from both the employer and eligible employees. Employer's contributions are voluntary and are determined each year at the discretion of management.

As regards employees in Europe, contributions are made by the employer to a money purchase defined contribution pension scheme for certain of its employees. The assets of the scheme are held separately by an independent administered fund.

31 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Remuneration for key management personnel of the Group are disclosed in notes 7 and 8 to the financial statements.

(b) As at 31 December 2018, the Group advanced funds totalling HK$40,140,000 (2017: HK$40,537,000) to certain associates in which certain directors of the Company have beneficial interests. Further details of the associates are given in note 14 to the financial statements.

(c) During the year ended 31 December 2018, the Group acquired sanitary wares amounted to HK$177,000 from a related party in which a director of the Company has beneficial interests. There was no such transactions during the year ended 31 December 2017.

Notes to the Financial Statements *(Continued)*

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Non-current asset			
Interest in subsidiaries		**948,516**	861,713
Current assets			
Trade and other receivables		**348**	339
Current tax recoverable		**–**	62
Cash and cash equivalents		**753**	1,242
		1,101	1,643
Current liabilities			
Trade and other payables		**2,971**	2,658
Net current liabilities		**(1,870)**	(1,015)
NET ASSETS		**946,646**	860,698
CAPITAL AND RESERVES	*27(a)*		
Share capital		**95,059**	95,059
Reserves		**851,587**	765,639
TOTAL EQUITY		**946,646**	860,698

33 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group believes the following critical accounting policies involves the most significant judgements and estimates used in the preparation of the financial statements.

(a) Valuation of investment properties

The fair valuation of the Group's investment properties is conducted by an independent firm of surveyors by either making reference to comparable sales evidence in the relevant locality, or otherwise, by capitalising the current rent derived from the existing tenancies with provision for any reversionary income potential. The valuation model used by the property valuer makes use of market inputs. Should changes be made to these market inputs, the corresponding investment property valuation would change.

(b) Impairment of property, plant and equipment

If circumstances indicate that the carrying amounts of property, plant and equipment may not be recoverable, the assets may be considered "impaired" and are tested for impairment in accordance with HKAS 36, *Impairment of assets*. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. The asset's recoverable amount will also be estimated if circumstances indicate that an impairment loss previously recognised no longer exists or may have decreased. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. In determining the recoverable amount, significant judgements are required and the Group uses all readily available information, including estimates based on reasonable and supportable assumptions, projections of sale volume and operating costs or other market data, to arrive at an amount that is a reasonable approximation of recoverable amount. Any adverse changes in the assumptions used in determining the recoverable amount would cause the carrying amount of the asset to be significantly different from the recoverable amount.

(c) Write down of inventories

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analyses and projections of expected future salability of goods based on management experience and judgement. Based on this review, a write down of inventories will be made when the estimated net realisable value of inventories decline below their carrying amounts. Due to changes in customers' preferences, actual salability of goods may be different from estimations and profit or loss in future accounting periods could be affected by differences in these estimations.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, *Leases*

As disclosed in note 1(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(continued)*

HKFRS 16, *Leases* *(continued)*

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 account model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 29(b), at 31 December 2018 the Group future minimum lease payments under non-cancellable operating leases amount to HK$8,893,000 and HK$466,000 for properties and other assets respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of HKFRS 16, the opening balance of lease liabilities and the corresponding right-of-use assets will be adjusted, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 2019 onwards.

Group Properties

Details of the major property of the Group are as follows:

Location	Existing use	Term of lease
Major property held for investment		
A portion of Ground Floor, whole of First, Second, Third, Fourth Floors, a portion of Fifth Floor, the whole of Sixth, Seventh, Eighth, Ninth, Tenth Floors, a portion of Eleventh Floor, Kader Building, 22 Kai Cheung Road Kowloon Bay, Kowloon Hong Kong	Industrial and office rental	Medium-term

Five-Year Summary

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**2018** **HK$'000**	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue		**663,688**	823,451	753,545	893,447	825,229
Profit from operations	1	**55,105**	165,220	102,367	115,443	4,284
Finance costs		**(7,781)**	(7,152)	(9,557)	(14,444)	(17,106)
Share of profits less losses of associates		**25,593**	10,323	12,376	4,205	3,716
(Impairment loss)/reversal of impairment loss of loans to an associate		**–**	–	(711)	1,566	1,883
Surplus on revaluation of investment properties		**142,888**	186,372	57,724	48,885	156,860
Profit before taxation		**215,805**	354,763	162,199	155,655	149,637
Income tax expense		**(34,401)**	(26,956)	(38,651)	(29,132)	(2,027)
Profit for the year		**181,404**	327,807	123,548	126,523	147,610
Attributable to:						
Equity shareholders of the Company		**181,750**	321,748	122,905	124,339	145,840
Non-controlling interests		**(346)**	6,059	643	2,184	1,770
Profit for the year		**181,404**	327,807	123,548	126,523	147,610
Earnings per share						
Basic		**19.12¢**	33.85¢	12.93¢	13.08¢	15.69¢
Diluted		**19.12¢**	33.85¢	12.93¢	13.08¢	15.69¢

Five-Year Summary *(Continued)*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Property, plant and equipment	**2,091,060**	1,926,237	1,747,032	1,706,476	1,720,370
Intangible assets	**399**	1,041	1,679	1,548	2,595
Interest in associates	**89,248**	64,052	53,845	40,643	25,206
Other financial assets	**13,941**	28,828	8,608	4,036	6,994
Deposits and prepayments	**14,708**	16,151	–	–	–
Deferred tax assets	**6,494**	11,633	9,985	8,836	3,669
Non-current assets	**2,215,850**	2,047,942	1,821,149	1,761,539	1,758,834
Net current assets/(liabilities)	**107,678**	114,846	9,670	28,860	(94,064)
Total assets less current liabilities	**2,323,528**	2,162,788	1,830,819	1,790,399	1,664,770
Non-current liabilities	**(28,426)**	(32,485)	(28,586)	(72,941)	(75,160)
NET ASSETS	**2,295,102**	2,130,303	1,802,233	1,717,458	1,589,610
CAPITAL AND RESERVES					
Share capital	**95,059**	95,059	95,059	95,059	95,059
Reserves	**2,197,581**	2,032,307	1,710,477	1,621,954	1,494,189
Total equity attributable to equity shareholders of the Company	**2,296,640**	2,127,366	1,805,536	1,717,013	1,589,248
Non-controlling interests	**2,462**	2,937	(3,303)	445	362
TOTAL EQUITY	**2,295,102**	2,130,303	1,802,233	1,717,458	1,589,610

Notes to the Five-Year Summary

1 The Group adopted HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9 *Prepayment features with negative compensation*, from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.