鴻興印刷集團有限公司
HUNG HING PRINTING GROUP LIMITED

2018
年度報告
ANNUAL REPORT

Stock code 股份代號：0450

CONTENT

CORPORATE PROFILE

Founded in 1950 as a small printing shop in Hong Kong, Hung Hing has developed over the past six decades into one of the largest and most trusted printers in Asia, with significant operations in book and package printing, consumer product packaging, corrugated box and paper trading.

Headquartered at the Tai Po Industrial Estate in Hong Kong, Hung Hing has plants at five locations across China, including four in the Guangdong province in Shenzhen, Zhongshan, Heshan and Foshan, and one in Wuxi, near Shanghai. Its total production floor space exceeds 550,000 square meters, with a workforce of around 8,200 in Hong Kong and China.

With a strong emphasis on providing reliable and value-added services to achieve customers' success, Hung Hing harnesses the latest in technology and ideas to create print solutions through sustainable operating practices, and services multinational corporations from the US and Europe as well as companies from Hong Kong and China.

Hung Hing's financial objective is to deliver consistent and superior returns to shareholders from a leading position in its industry. The strategy to achieve this involves long-term investments in fixed and human assets, and an unwavering focus on quality, efficiency and customer service.

CORPORATE INFORMATION

Executive Directors
Yum Chak Ming, Matthew, Executive Chairman
Sung Chee Keung

Non-Executive Directors
Sadatoshi Inoue
Hirofumi Hori
Yoshihisa Suzuki
Yam Hon Ming, Tommy

Independent Non-Executive Directors
Lo Chi Hong
Luk Koon Hoo
Yap, Alfred Donald

Company Secretary
Shek Kwok Man

Legal Advisor
Fangda Partners

Registered Office
Hung Hing Printing Centre
17–19 Dai Hei Street
Tai Po Industrial Estate
New Territories, Hong Kong
Tel: (852) 2664 8682
Fax: (852) 2664 2070
E-mail: info@hunghingprinting.com

Principal Bankers
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
MUFG Bank, Ltd.
BNP Paribas

Auditor
KPMG

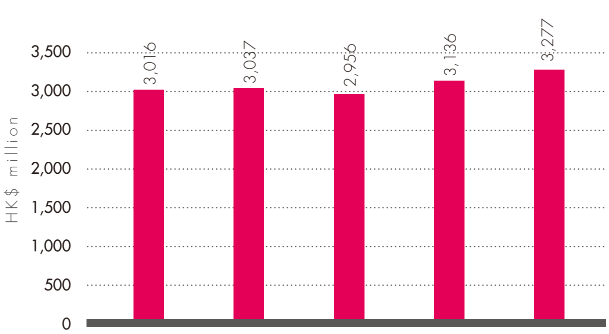
Share Registrar
Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

FINANCIAL HIGHLIGHTS

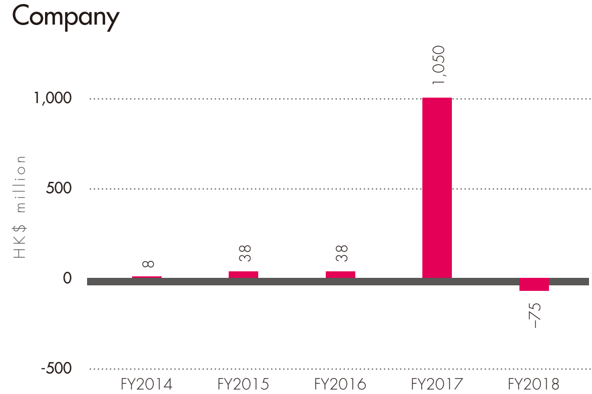
	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue	**3,276,800**	3,135,659
(Loss)/Profit for the Year	**(72,144)**	1,055,549
(Loss)/Profit Attributable to Equity Shareholders of the Company	**(74,518)**	1,050,483
Basic (Loss)/Earnings per Share (HK cents)	**(8.3)**	116.7
Dividends per Share (HK cents)		
Interim Dividend	**3**	2
Final Dividend	**3**	3
Special Dividend	**4**	27
	10	32

	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Property, Plant and Equipment	**1,142,918**	1,094,232
Net Current Assets	**2,085,991**	2,712,796
Total Assets	**4,066,243**	4,543,812
Equity Attributable to Equity Shareholders of the Company	**3,244,396**	3,656,713

Revenue



(Loss)/Profit Attributable to Equity Shareholders of the Company



CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Our core strengths of agility and value creation render us extremely well placed to achieve sustainable, long-term growth in today's dynamic market and trade environment.

2018 saw the Hung Hing Printing Group achieve steady performance with revenue improvements across its major core businesses. The Group capitalised on ongoing industry consolidation and a steady flow in customer orders from both its export and domestic markets to deliver overall revenue growth of 4.5% over 2017 to reach HK$3,277 million. Our strategic investment in Guangdong Rengo was validated through these results with the Corrugated Box (CB) business unit achieving significant revenue and stable profit during the year.

Our recent investments at our Heshan and Wuxi plants in increased automation and efficiencies and to acquire new capabilities enabled our largest business unit, Book and Package Printing (BPP), to deliver revenue increases despite uncertainty in business sentiments around ongoing US-China trade negotiations. The Consumer Product Packaging (CPP) business unit also grew on the back of domestic sales.

During the year, the Group's profitability was affected by several macro-economic and regulatory factors. An increase of provisions in labour benefit cost and abrupt surge in paper prices led to a decrease in gross profit margin of approximately HK$100 million. Despite our prudent hedging strategies, we incurred fair value losses of approximately HK$46 million from settlement of forward contracts for hedging against the Group's currency exposure to fluctuations in Renminbi. These two factors, combined with the absence of a one-off pre-tax gain of approximately HK$1,144 million arising from the disposal of one of our paper trading facilities recorded last year, led to a net loss of approximately HK$72 million, as compared to a net profit of HK$1,056 million recorded in the previous year.

The Group continued to maintain strong net cash in hand (total cash net of bank borrowings) of approximately HK$956 million as at 31 December 2018 that will allow us to continue to invest in future growth and create shareholder value.

RESULTS AND DIVIDENDS

Group's revenues for 2018 grew 4.5% to HK$3,277 million while gross margin decreased by 3.7%. Due to the factors detailed earlier, the Group incurred a loss attributable to equity shareholders of the Company of HK$75 million in 2018, compared to a profit of HK$1,050 million in 2017.

Basic loss per share was HK8.3 cents, compared to earnings per share of HK116.7 cents in 2017.

The Group endeavours to maintain stable dividend return and offer the utmost in rewarding the shareholders of the Group. The Board of Directors has proposed a final dividend of HK3 cents and a special dividend of HK4 cents, reflecting our continued confidence in our strong fundamentals and financial position, as well as the value we place on the prospects ahead. This, together with the interim dividend of HK3 cents, brings the total dividend for the year to HK10 cents. Subject to shareholders' approval, the dividend will be paid to shareholders whose names appeared on the Register of Members of the Company as of 3 June 2019.

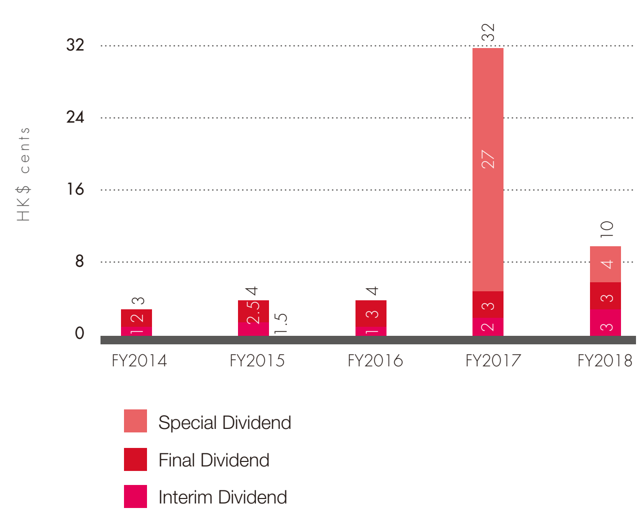
INNOVATION, STRONG FUNDAMENTALS

In this era of uncertainty, flexibility, adaptation, and agility are essential for sustainable, long-term growth. A changing market and trade situation, consolidation, stricter environmental regulations and evolving customer expectations combine to make it essential to evolve our business and capabilities to maintain leadership. We did this on three fronts during the year.

Expanding and fine-tuning our existing capabilities

We invested in process improvements and enhanced automation at our existing manufacturing facilities, the most significant of which was a major program of works that expanded the Heshan facility by 25,000 sq. m. The enhanced facility became operational in the middle of the year and is now able to increase our capacity to fulfil higher order volume at shorter timescales, while offering advanced technical features to add value to our products.

Dividend Per Share



Across our other factories, we deployed new technology and automation to improve capacity utilisation and optimise labour costs. While stricter environmental requirements in China have led to more consolidation, our proactive investments in emissions control and low-emissions technology have enabled us to minimise any impact upon our operations.

At the same time we extended our production facilities further afield. Through a joint venture (JV) with Dream International Limited, we have embarked upon the development of a state-of-the-art printing and packaging manufacturing facility in Hanoi, Vietnam, which is expected to be completed around the second half of 2019. The facility will complement our existing production plants in China, augmenting our offering for domestic and export markets and broadening the unique portfolio of our BPP business unit.

We also re-aligned our production and distribution setup for the corrugated carton business with the acquisition of Guangdong Rengo in March 2018 from our major shareholder, the Rengo Group. The deal has strengthened our multi-location network for growth, improved logistical efficiencies and better service coverage while yielding immediate revenue benefits.

Moving up the value chain and closer to customers

The Beluga design hub continued to invest in research and development into cutting-edge design and paper engineering, while value-added services such as our copyright agency services for book publishers, started two years ago, are yielding results. In 2018 we supported several major book publishers to acquire copyright titles and print popular books for China as well as overseas markets.

In 2018, we moved one step closer to end customers by launching YumMePrint, an interactive mobile photo-printing service, in Hong Kong, in partnership with a company that operates a wide network of mobile printing and sharing services in China and other markets. YumMePrint allows consumers to embellish, personalise, add voice message and print photos from anywhere from their smartphones conveniently, and will help extend our digital+print product offerings to end customers.

Strategic investments for long-term growth

To achieve business transformation and capture the opportunities provided by the global digital economy, we made strategic investments in three other carefully-selected international businesses during the year. In August 2018, we entered into an agreement with kikki.K, a global retailer of high-end stationery and gift products of Swedish design to add to our premium, personalised product offering. The investment has already provided us with access to new opportunities leveraging the company's global omni-channel sales network.

Another company we have invested in is involved in the research and development of an Internet of Things (IoT) platform that stimulates children's brains and language development. This investment has strong synergies with our print+digital range of e-learning products and is expected to be very advantageous for our engagement with target customers and next generation of product development.

We have also acquired a stake of over 50% in STEM Plus Limited, a consortium of educational professionals and organisations that seeks to establish platforms and exhibitions to help build Hong Kong as a smart city through STEM (Science, Technology, Engineering and Mathematics) education. This JV will allow the Group to gain market intelligence, develop new value-added products and expand geographically into STEM-related networks across the Greater Bay Area.

OUTLOOK

2019 will continue to witness persistent uncertainties in the global trading environment, while the China domestic market will stabilise. We expect continued fluctuations in exchange rates and material prices, all of which will serve as an ongoing stimulus for further consolidation. Our strong order pipeline, enhanced capabilities and fundamental strengths as a business will allow us to capitalise on the opportunities ahead.

Building upon the investments we have steadily made in recent years, we are well positioned to make further progress with our long-term strategy and aggressively grow our business and margin. We honoured pre-existing pricing commitments to customers in 2018 to cement customer relationships, but going forward we will be able to reflect the impact of currency volatility and increased paper costs in our pricing strategies.

We provide a more diversified product offering than many of our competitors, offer value through technology and have a highly efficient, automated production process. These factors, combined with our strong cash position and reputation for quality and partnership, will allow us to access new opportunities and keep building towards long-term growth in shareholder returns.

As always, I extend my heartfelt gratitude to our shareholders, management and staff whose loyalty and support underpin all our achievements.

Yum Chak Ming, Matthew
Executive Chairman

Hong Kong, 22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

CONSOLIDATING LEADERSHIP THROUGH EXPANDED CAPABILITIES

In 2018, the Hung Hing Printing Group continued to expand and build on its leadership position as one of the largest printers in Asia and world-leading manufacturer of children's books. Our state-of-the-art capabilities span book and package printing, consumer product packaging, corrugated box manufacturing and paper trading. Spread across six locations in Hong Kong and China, including Shenzhen, Zhongshan, Heshan, Foshan and Wuxi, our manufacturing setup incorporates automation and pursues Industry 4.0 principles. In mid-2018, we completed the construction of a new 25,000 sq.m. production facility at the Heshan plant which was ready for operation.

We are in the process of implementing a strategic expansion plan that will make us more versatile, and enable us to handle more complex projects with advanced technology, satisfying demanding requirements in global markets. The key project under this plan is a 35,000 sq. m. state-of-the-art printing facility that is presently under construction in Hanoi, Vietnam. When it commences operations in the second half of 2019, it will increase our total production floor area to 585,000 sq. m.

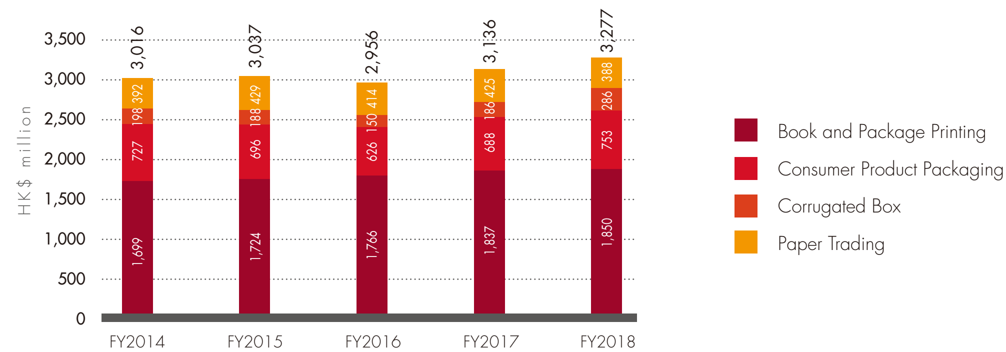
REVENUE

Group revenue increased slightly by 4.5% over the previous year to HK$3,277 million. This growth was attributable to a broader portfolio of high-quality products and enhanced large-scale production capabilities that allowed us to secure orders in both export and domestic markets. While the book and package printing (BPP) and consumer product packaging (CPP) business increased revenues organically, the corrugated box (CB) unit's revenues were boosted by the contribution from the Group's new acquisition, Guangdong Rengo, whose operations were consolidated with the Group in the middle of 2018.

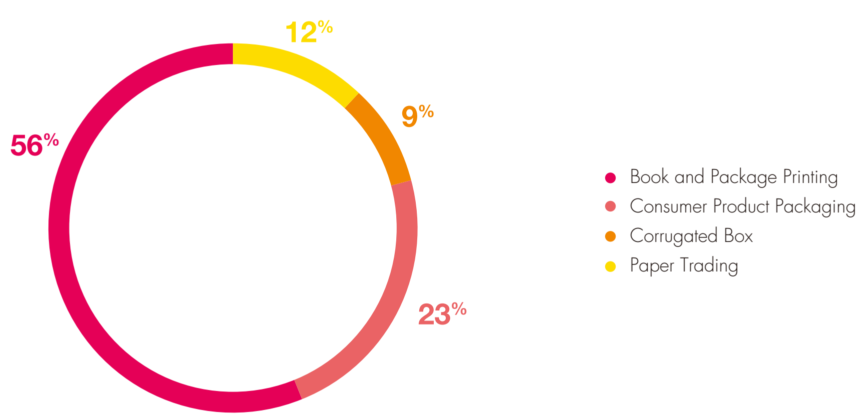
OPERATING PROFIT AND MARGINS

During the period, the Group was able to avoid industry-wide adversity by focussing on high-return business segments and signing long-term and mutually beneficial agreements with customers that passed on certain paper price changes. An increase in provisions made for labour benefits and abrupt shifts in paper pricing however, impacted gross margins by approximately HK$100 million. Despite our prudent hedging strategies based on actual demand, we incurred fair value losses of approximately HK$46 million arising from complete settlement of forward contracts for hedging against the Group's currency exposure to erratic fluctuations in Renminbi at the end of the year. These macro-economic factors, which were largely beyond our control, resulted in an overall net loss of HK$72 million for the year.

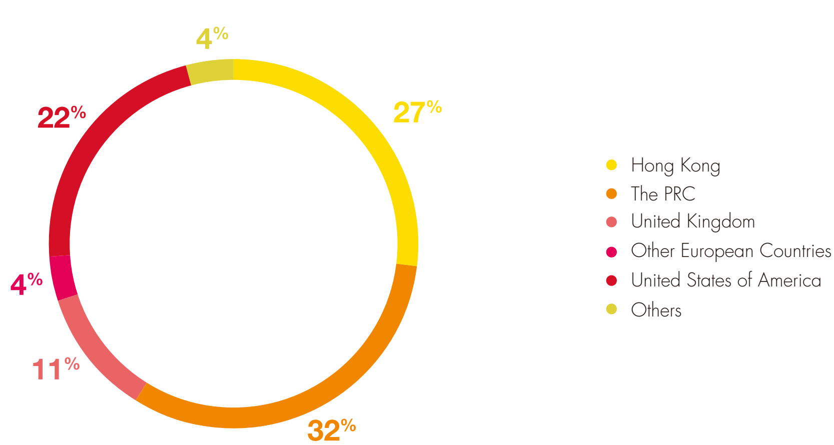
Revenue by Business Unit



Revenue by Business Unit in Year 2018



Revenue by Region in Year 2018



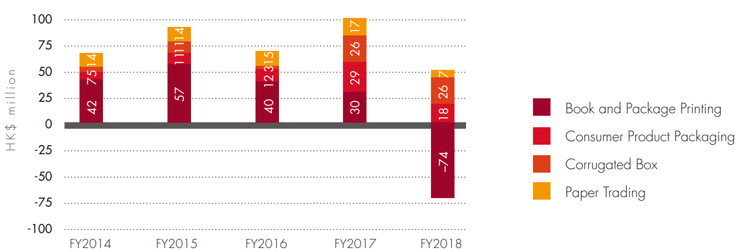
LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The Group incurred a loss attributable to equity shareholders of the Company of HK$75 million compared to a profit of HK$1,050 million achieved in the last financial year, mainly due to the absence of the one-off pre-tax gain of approximately HK$1,144 million in 2017 arising from the disposal of a subsidiary, Sun Hing Paper (Shenzhen) Company Limited.

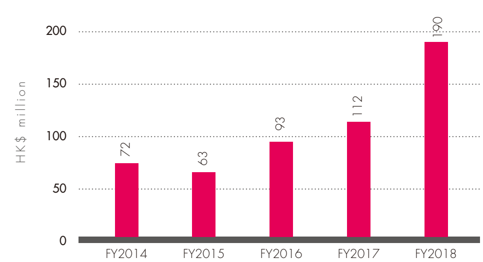
STRONG LIQUIDITY: NET CASH UP TO HK$956 MILLION

The Group leveraged its strong cash position by committing to a range of high value-potential investments to create synergies and increase our prospects for our long-term growth, for a total consideration of approximately HK$250 million. These included acquiring a 100% stake in Guangdong Rengo, a 90.5% stake in a joint venture printing and packaging manufacturing facility in Hanoi, Vietnam, and 10% to 20% stakes in each of the following three companies: kikki.K, a high-end design and retail company with a global distribution network and business; Guangzhou Honghai Enterprise Co., Limited, a company that provides a mobile platform for creative photo printing and document production with high potential for retail installation; and Oyalabs, that engages in research into an Internet of Things platform to support children's cognitive learning. We also acquired over 50% stake in STEM Plus Limited – a consortium comprised of professional entities in related fields to set up platforms and organise exhibitions on STEM (Science, Technology, Engineering and Mathematics) education.

(Loss)/Profit Contribution by Business Unit



Capital Expenditure



Throughout the year we continue to conduct systematic capital investments, upgrading our existing manufacturing facilities in China, investing (including capital commitment) HK$237 million in new equipment, facilities and systems to enhance our competitive position with capabilities including customisation and bespoke printing, as well as process and automation improvements.

The Group still maintains a very strong net cash in hand (total cash net of bank borrowings) of approximately HK$956 million as at 31 December 2018, which will give us the financial leverage to invest in future growth and create shareholder value.

Gearing was maintained at a healthy and conservative level of 3.9% (2017: 5.4%).

To meet operating needs, approximately 63% of cash was held in RMB, with the rest held in HKD (5%) and USD (30%). Loans were also confined to HKD and USD to control currency exposures and reduce interest expenses. We also carefully managed our loan portfolio, using a balanced mix of floating and fixed interest rate facilities depending on market conditions to minimise interest rate risk.

MARKET PERFORMANCE

We are confident that China's domestic market will continue to grow with solid demand for books and luxury packaging from an increasingly affluent middle class. On the export front, consumers remained conservative in major markets such as the US and Europe because of ongoing trade uncertainties, resulting in unpredictable order quantities with extremely short lead times. Our proactive investments in product design and development, brand management, production efficiencies and automation allowed us to exert more influence in the whole development process, thus increasing our share in the market. In addition, our high value-added features with digital+print elements, luxury packaging and new product ideas all received a positive response.

In China, the market for paper has undergone consolidation in past years and the raw materials for paper supply have now become more restricted in the region. In anticipation of persistent variability in paper prices, we have broadened our supply base to South East Asia and Europe so that we can procure a reliable supply of paper at more advantageous conditions and rates.

Another market factor that underwent abrupt and profound movements during the year was exchange rates. Despite our prudent hedging strategies based on actual demand, the Group was not immune to unpredictable shifts in exchange rates, particularly RMB and Euro, which led to margin pressure and ultimately resulted in a fair value loss on hedging contracts. These hedging contracts have all been completed as at 31 December 2018.

Our new capabilities, efficiencies through automation, vertically integrated operations and the economies of scale that we can achieve have enabled us to emerge stronger despite adverse macro conditions that have impacted many other sector participants. Our topline results have started to see the benefits of systematic investment in automation and agility, enabling us to tap into new and emerging trends, minimise the impact of regulatory and environmental restrictions, and position ourselves favourably for further transformation. We face the coming year with confidence in our ability to remain the partner of choice for global clients in the transition to a global, connected and digital economy.

BUSINESS UNIT REPORT

BOOK AND PACKAGE PRINTING (BPP)

Book and Package Printing is the Group's largest business unit, with 57% of total sales.

BPP is one of the world's leading producers of folding cartons and packaging for toys, cosmetics and other consumer products, and conventional and children's novelty books. Traditional printing aside, BPP also offers creative design and product development for 'print + digital' solutions through its subsidiary Beluga and has launched a range of interactive photo-printing kiosks through an investment in the YumMePrint platform. As a value-added service, BPP also helps Chinese and global publishing clients reaching licensing agreements of popular book titles in global markets.

The business unit has manufacturing plants in three locations – Shenzhen and Heshan in China's Guangdong province, and Hong Kong, with a combined production space of 300,000 square meters over a total land area of approximately 414,000 square meters, and a workforce of approximately 6,000. This manufacturing capacity will be augmented with the addition of a new 35,000 square meter facility in Hanoi, Vietnam, that will come onstream in the second half of 2019.

The BPP business reported the following results in 2018:

- Revenues of HK$1,850 million, an increase of 0.7% over the previous year's revenues of HK$1,837 million

- Loss of HK$73.7 million, compared to a profit contribution of HK$30.5 million in the previous year

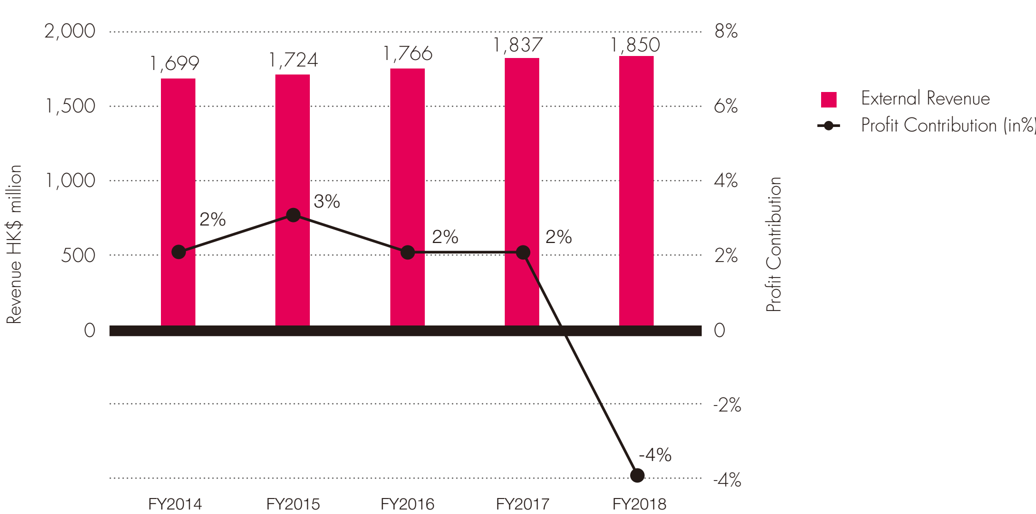
Review of operations

The BPP unit managed to mitigate the impact of the US-China trade dispute and turmoil from Brexit, and achieved steady sales from key export markets such as the US and UK. It also continued to expand its domestic sales through aggressive marketing and product portfolio growth to augment export sales. Luxury and high-end products made significant contributions to the unit's revenues. Value-added services such as the acquisition of publication rights in China on behalf of local and overseas publishers, launched in previous years, became well established and delivered steady business. BPP further expanded its core service offering during the year on the back of new equipment installation at Heshan, by consolidating hard-bound book printing services, and acquired new customers in major export markets.

Beluga, the design and innovation hub under the BPP unit, plays a key role in helping the Group move beyond the traditional business-to-business portfolio through the implementation of a roadmap to move up the value chain and closer to the end consumer. During the year, the hub expanded its team and services, building out its portfolio to include innovative sales and promotion solutions through special paper engineering. In addition to creative digital+print products, Beluga also launched YumMePrint, a mobile photo customisation and printing platform, which made its debut at Stanley Plaza in Hong Kong during Chinese New Year and Valentine's Day in February 2019. The launch attracted hundreds of people to take and print photos in a new way at beautifully decorated themed photography spots.

The STEM Plus investment will help the Group upgrade, transform and diversify into the unique and attractive education sector, providing STEM related organisations with a reliable platform and support to hold exhibitions to promote STEM education and launch new value-added products and services.

BPP
Revenue & (Loss)/Profit Contribution (in %)



CONSUMER PRODUCT PACKAGING (CPP)

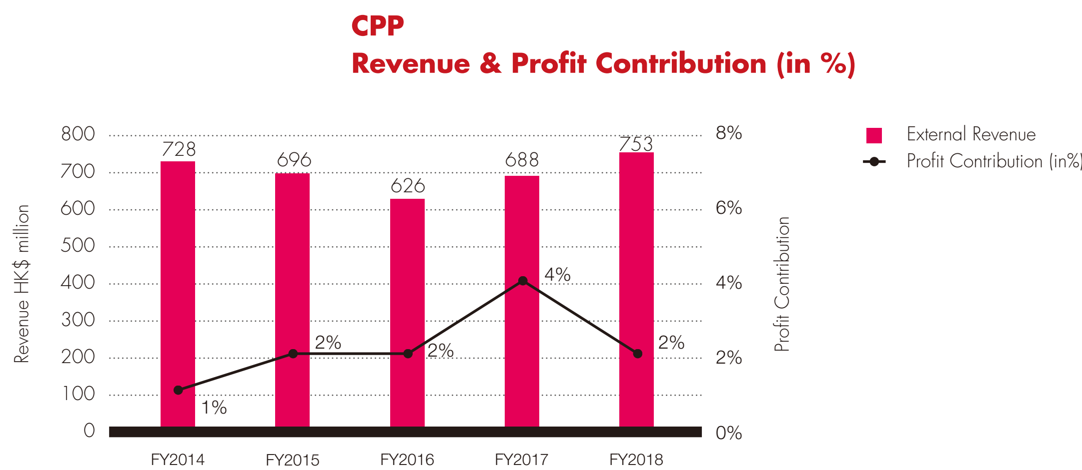
The Consumer Product Packaging (CPP) unit accounts for 23% of the Group's total revenues. CPP provides high quality packaging solutions for customers worldwide, with a particular focus on mainland China's fast-growing consumer market.

Production is done at facilities in Zhongshan in southern China and Wuxi near Shanghai with a combined production space of 180,000 square meters over a total land area of approximately 250,000 square meters, and a skilled workforce of approximately 1,500.

The CPP business reported the following results in 2018:

- External revenues of HK$753 million, an increase of 9.4% over HK$688 million recorded in the previous year

- Profit contribution of HK$18.1 million, a drop of 37.5% compared to HK$28.9 million recorded in 2017



Review of Operations

The CPP business delivered a second year of strong revenue growth, on the back of enhanced capabilities and operating efficiencies in the Wuxi plant that allowed it to take advantage of the strong prospects afforded by the Chinese domestic market. Luxury products and high-end packaging solutions drove revenues while new capabilities that have been deployed at the Wuxi plant, including digital printing, performed strongly during the year.

Some of the plant's popular product lines such as greeting cards continued to deliver satisfactory sales, augmenting the business unit's results. Going forward CPP will continue to upgrade its capabilities to grow its target market. A new high-tech digital printing machine installed in the Zhongshan plant will allow the business unit to produce a broader range of high-quality products to meet the demands of the growing Chinese luxury products sector.

The external environment remained challenging with factors such as paper price fluctuations and margin pressure from customers and competitors, which served to shrink margins and reduce the unit's profit contribution. However, the Group's reputation for reliable partnership and cost efficiency from our vertically integrated operating model, combined with long-term positive prospects in the mainland China market render it well positioned for future growth and success.

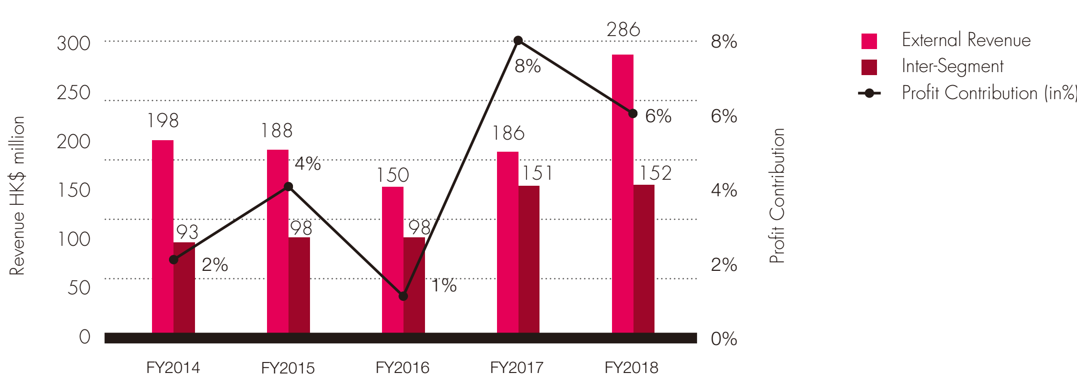
CORRUGATED BOX (CB)

The Corrugated Box (CB) business unit recorded revenues of HK$438 million, including HK$286 million in external sales and HK$152 million in inter-business unit sales. More than 30% of these revenues were from the Group's new acquisition, Guangdong Rengo, in the second half of 2018.

CB supplies corrugated cartons for packaging to a wide range of companies, including toy, food and beverage, and electronics and household product manufacturers. Over 60% of the CB business is generated from exports out of mainland China.

The business unit operates a multi-location network of manufacturing facilities in Shenzhen, Foshan (newly acquired Guangdong Rengo), and a distribution centre in Hong Kong. This is complemented by additional corrugated box manufacturing capabilities in other business units. This network allows the Group to deliver high quality corrugated carton products to various locations in the Guangdong province quickly and efficiently.

CB
Revenue & Profit Contribution (in %)



The CB business reported the following results in 2018:

- External revenues of HK$286 million, an increase of 53.9% over HK$186 million recorded in the previous year
- Profit contribution of HK$26 million, on par with 2017

Review of Operations

The CB business unit entered into a significant transaction to expand its business with the strategic acquisition of Guangdong Rengo in March 2018. With a strong market position in the production of corrugated cases and packaging, among other product lines, the acquisition was immediately effective in driving revenue growth of the CB unit. Apart from the near-term revenue benefits, the acquisition also provides longer-term strategic advantages, enabling us to create a broader multi-location network to operate closer to our customers, and thereby deliver even better customer service.

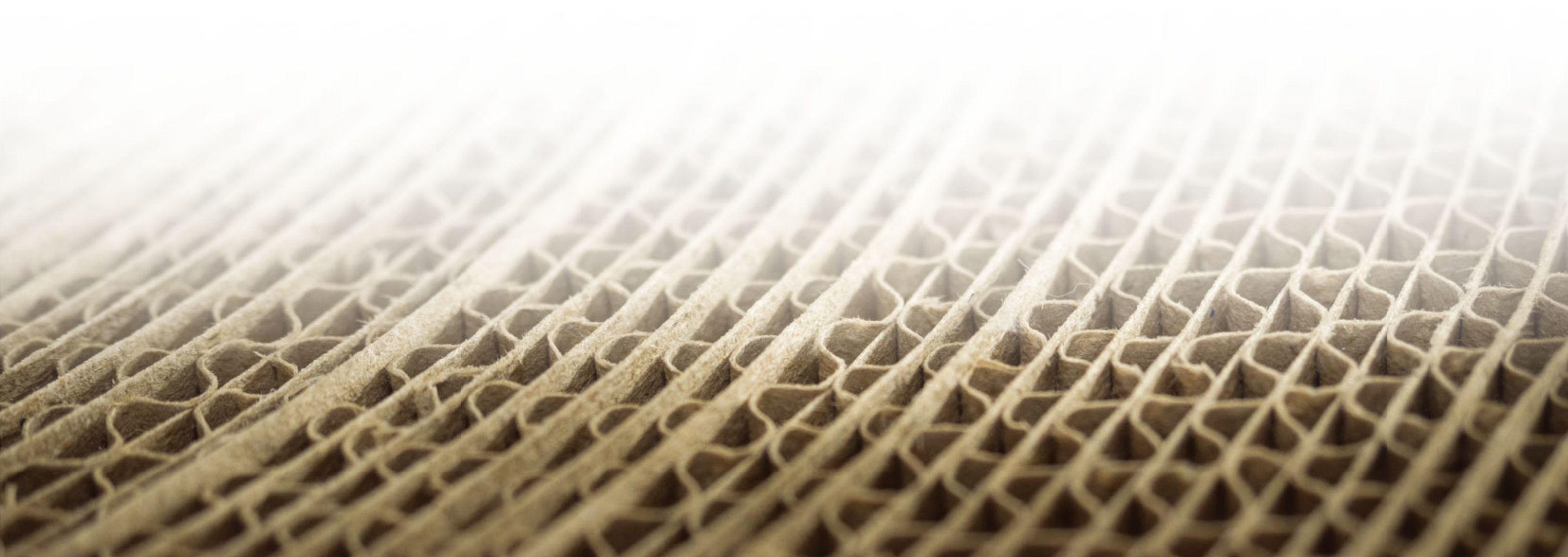
The CB unit implemented prudent inventory strategies to reduce risks in the face of abrupt paper price fluctuations and as a result, it was able to maintain same profit contribution. Appropriate investments were made in emissions control equipment to minimise the Group's environmental impact and ensure adherence to any relevant regulatory developments.

Going forward, the unit's priority is to facilitate the efficient integration of the Guangdong Rengo operations into the Group and fully capitalising on the operating synergies of both entities to achieve full-year profit contribution in the coming year.

PAPER TRADING (PT)

The Paper Trading (PT) business unit recorded revenues of HK$826 million, including HK$388 million in external sales and HK$438 million in inter-business unit sales.

PT is one of the largest paper trading operators in Asia (ex-Japan) and can supply a large variety of paper types and quantities with short lead times at competitive prices. Apart from sales to external customers, the business unit serves as a key strategic partner for paper supply to the Group's other business units.



The PT business reported the following results in 2018:

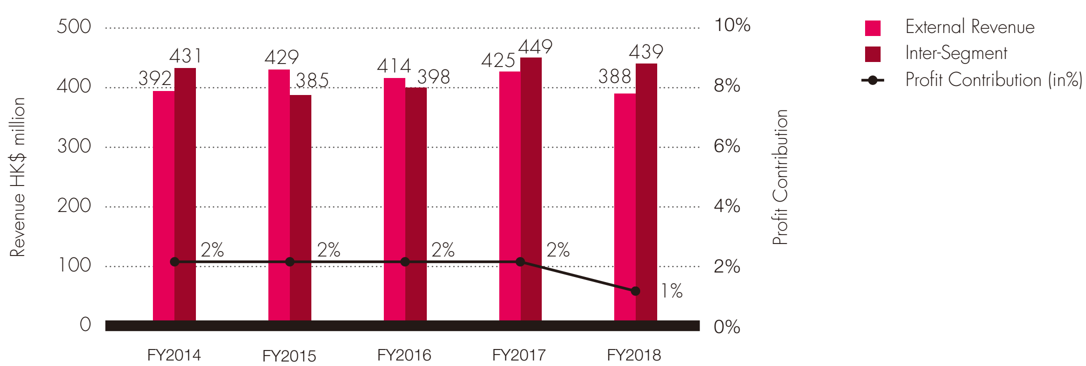
- External revenues of HK$388 million, a drop of 8.7% compared to HK$425 million recorded in the previous year
- Profit contribution of HK$6.6 million, a drop of 62% compared to HK$17.3 million recorded in 2017

Review of Operations

PT continued to serve as a critical component in the Group's vertically integrated strategy, allowing the other business units to achieve synergies and minimise, to some extent, their overall exposure to paper price fluctuations.

Following the disposal of one of its warehousing facilities in Shenzhen in 2017, the PT unit embarked on a strategic realignment of its operating processes to become more agile, while reducing fixed costs and optimising inventory levels. The unit began to roll out a more dynamic warehousing approach during the year, that enabled capacity to be adjusted based on demand. While this strategy allows the Group to better manage distribution costs and inventory levels, it also resulted in higher-than-anticipated transitional expenditure in the short term, that led to a decline in profit contribution.

PT
Revenue & Profit Contribution (in %)



CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance practices and procedures. The corporate governance principle of the Company emphasizes on accountability and transparency and is adopted in the best interests of the Company and its shareholders. In addition the Company will strive to continuously improve these practices and cultivate an ethical corporate culture.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Code of Corporate Governance (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has complied with all the applicable code provisions in the CG Code throughout the year ended 31 December 2018 except for the following deviations:

Code Provision A 2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chief executive officer have been undertaken by Mr. Yum Chak Ming, Matthew, the Executive Chairman of the Company. The Board is of the opinion that it is appropriate and in the best interests of the Company that Mr. Yum should hold these offices. The Board believes that it is effective to monitor and assess business performance in a manner that properly protects the interests of shareholders.

Code Provision A 4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company are not appointed for a specific term. However under the Articles of Association of the Company, one-third of the directors who have served longest on the Board shall retire from office by rotation every year at the annual general meeting. All directors of the Company retire by rotation at least once every three years and hence the terms of appointment of the Non-executive Directors are limited accordingly.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of Directors (the "Board") of the Company is composed of 9 directors, of which 2 are Executive Directors including the Executive Chairman, 4 are Non-executive Directors and 3 are Independent Non-executive Directors. All the Independent Non-executive Directors have appropriate professional qualifications, experience or related industry expertise. The Directors biography and relevant relationships amongst them are set out in the Biographical Details of Directors section on pages 57 to 59 of this Annual Report.

Review will be made regularly by the Board to ensure that it has a balance of skills and experience appropriate for the requirement of the Company and its subsidiaries (the "Group"). Also, a balanced composition of Executive Directors and Non-executive Director is maintained to ensure independence and effective management. The Company has satisfied the Listing Rules in having one of the Independent Non-executive Directors with appropriate accounting qualifications and expertise to sit in the Audit Committee.

Each of the Independent Non-executive Director has made an annual confirmation of independence pursuant to Rule 3.13 and Appendix 16 (12B) of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. The Company considers that all Independent Non-executive Directors to be independent.

Independent Non-executive Directors are identified in all corporate communications. An updated list of the Directors identifying the Independent Non-executive Directors and the roles and functions of the Directors is maintained on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

When selecting potential candidates for directors, skills, experience, expertise, his devotion of time, potential conflicts of interests are key factors for consideration. The Nomination Committee was set up to make recommendation to the Board on the selection and nomination of candidates for directorship. Majority of members of the Nomination Committee are Independent Non-executive Directors.

The Board is accountable to shareholders and is responsible for the formulation of the Group's strategy, overseeing the management of the business and affairs of the Group.

Key and important decisions are fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the agenda. The Executive Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the support of the Company Secretary, the Executive Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner.

Daily operation and managing of the business of the Group, inter alia, the implementation of strategies are delegated to the Executive Directors and the management team. They report periodically to the Board their work and business decisions.

Board meetings are scheduled to be held at regular interval. The Board would meet more frequently as and when required. An annual general meeting at which the Company's auditor attended was convened on 24 May 2018 for the financial year ended 31 December 2017.

The attendance record of the Directors at the board meetings and the annual general meeting for the year ended 31 December 2018 is as follows:

	Attendance Board meetings	AGM
Executive Chairman		
Yum Chak Ming, Matthew	4/4	1/1
Executive Director		
Sung Chee Keung	4/4	1/1
Non-executive Directors		
Sadatoshi Inoue	4/4	1/1
Hirofumi Hori	4/4	1/1
Yoshihisa Suzuki	4/4	1/1
Yam Hon Ming, Tommy	3/4	0/1
Independent Non-executive Directors		
Yap Alfred Donald	3/4	1/1
Luk Koon Hoo	4/4	1/1
Lo Chi Hong	4/4	1/1

Notice of at least fourteen days are given to the Directors for regular meetings, while Board papers are sent to the Directors not less than three days before the scheduled date of a board or board committee meeting. The Directors can attend meetings in persons or through other means of electronic communication. The Company Secretary ensures that the procedure and all applicable rules and regulations are strictly and fully complied with. Minutes of board meetings and board committee meetings are kept by the Company Secretary and are available for inspection at any reasonable time on reasonable notice by any Directors.

Directors have full access to information on the Group and are able to obtain independent professional advice whenever necessary.

TRAINING AND SUPPORT FOR DIRECTORS

Every newly appointed Director will meet with other Directors and key management executives, and will receive a comprehensive, formal and tailored induction on the first occasion of his appointment. Subsequently, he will receive briefings and other professional development necessary to ensure he has a proper understanding of the operations and business of the Company and he is fully aware of his responsibility with the Company.

All Directors are encouraged to participate in continuous professional development to refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. Directors are also invited to participate in Company events to familiarize themselves with the operations of the Company and opportunity to communicate with other management members of the Company. In 2018, we arranged our audit firm to give a talk and lead discussion on the subject of New Transfer Pricing Rules Under The Hong Kong Inland Revenue Ordinance. Some directors also attended training seminars as provided by other professional bodies or as referred to by the Company.

The records of training as received by each Director in 2018 are summarized as follows:

	Type of trainings
Executive Chairman	
Yum Chak Ming, Matthew	A, B, C
Executive Director	
Sung Chee Keung	A, B, C
Non-executive Directors	
Sadatoshi Inoue	A, B
Hirofumi Hori	A, B
Yoshihisa Suzuki	A, B, C
Yam Hon Ming, Tommy	A, B, C
Independent Non-executive Directors	
Yap Alfred Donald	A, B, C
Luk Koon Hoo	A, B, C
Lo Chi Hong	A, B, C

A: attending professional seminars/conferences/forums

B: reading materials relating to general business, regulatory updates on listing rules and board practices

C: attending corporate events/site visits

CORPORATE GOVERNANCE POLICY AND DUTIES

The board is responsible for performing the duties on corporate governance functions as set out below:

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

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

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

(iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors; and

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules. The Executive Chairman or the Chairman of the Audit Committee is the person to be notified for securities dealings by Directors and a designated form is used for notification and acknowledgement purpose.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the year ended 31 December 2018.

Senior Management of the Company is also required to comply with the guidelines on similar terms as set out in the Model Code.

INTERNAL CONTROL

The Company places great importance on internal control and risk management to safeguard the assets of the Company and the interests of shareholders. The Board has overall responsibility for the system of internal control and for reviewing its effectiveness. The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control. The Audit Committee reviews the process by which the Group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed through the assistance of the Company's Internal Audit Department.

The Company's Internal Audit Department assesses risk exposure, formulates audit plan and ensures the audit programs cover key internal control areas of operating subsidiaries on a rotational basis for the review by the Audit Committee. Special review may also be performed on areas of concern identified by management or the Audit Committee from time to time.

The Internal Audit Department monitors the internal control procedures and systems of the Group and reports its findings and recommendations to management of the Company and the Audit Committee. The department also monitors the follow-up actions agreed upon in response to its recommendations and reports to the Audit Committee the progress of implementation of those recommendations.

With the assistance of the Audit Committee and the Company's Internal Audit Department, the Board is satisfied that the overall financial, operational and compliance controls, and risk management of the Group continues to be effective.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 68 to 70 of this Annual Report.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the Auditor of the Company will receive approximately HK$2,502,000 (2017: HK$2,060,000) for their audit service. Non-audit service which covered taxation and other services provided to the Group was approximately HK$548,000 (2017: HK$1,605,000) in the same period.

REMUNERATION COMMITTEE

The Remuneration Committee comprises of 3 Independent Non-executive Directors and 1 Non-executive Director. They are Mr. Alfred Donald Yap (Committee Chairman), Mr. Luk Koon Hoo, Mr. Lo Chi Hong and Mr. Yoshihisa Suzuki. The Committee's authority and duties are set out in written terms of reference which are posted on the websites of the Company and the Stock Exchange.

The policy and structure for all remuneration of Executive Directors and the Senior Management were reviewed by the Committee. Remuneration, including basic salary, performance bonus, long term incentive plan of the Executive Directors and Senior Management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability. Annual salary adjustment and profit linked performance bonus are subject to review and approval by the Committee. A Restricted Share Award Scheme was in place to attract, motivate and retain employees and tie their interest to the long-term growth of the Company.

No individual director and senior manager are allowed to determine his or her own remuneration.

Executive Directors are not eligible for additional remuneration of director fee for Board activities. Director fee for Non-executive Directors is subject to annual review for shareholders' approval at the annual general meeting. Reimbursement is allowed for reasonable out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

The Committee met once in the financial year ended 31 December 2018 and the attendance record are:

	Attendance
Yap Alfred Donald	0/1
Luk Koon Hoo	1/1
Lo Chi Hong	1/1
Yoshihisa Suzuki	1/1

During the year, the Committee reviewed and recommended to the Board for approval the followings:

– the incentive bonus program of Executive Directors and Senior Management as linked to the financial target of the Group for the year ended 31 December 2018;

– the salary adjustment of Executive Directors and Senior Management taken into account of the Group annual salary review policy and performance of individuals;

– the renewal of the present restricted share award scheme for further 3 years up to the period ending on 30 June 2021 on similar terms as the existing scheme; and

– the list of participants in the restricted share award scheme and their indicative award value for the next scheme period ending on 30 June 2021.

NOMINATION COMMITTEE

The Nomination Committee comprises of 3 Independent Non-executive Directors, Mr. Luk Koon Hoo (Committee Chairman), Mr. Alfred Donald Yap, Mr. Lo Chi Hong, 1 Non-executive Director, Mr. Yoshihisa Suzuki, and the Executive Chairman, Mr. Yum Chak Ming, Matthew. The defined terms of reference of the Committee are set out in writing and are posted on the websites of the Company and the Stock Exchange.

The Committee is responsible for making recommendation to the Board for selection and nomination of directors, and the succession planning of directors and senior management. The Committee also reviews the size, structure and composition of the Board with reference to the Company's board diversity policy and assesses the independence of Independent Non-executive Directors.

The Committee met once in the financial year ended 31 December 2018 and the attendance record are:

	Attendance
Luk Koon Hoo	1/1
Yap Alfred Donald	0/1
Lo Chi Hong	1/1
Yoshihisa Suzuki	1/1
Yum Chak Ming, Matthew	1/1

During the year, the work performed by the Committee included the followings:

– the recommendation of the retiring directors for re-election at the annual general meeting;

– the review of composition of the Board; and

– the assessment of independence of the independent Non-executive Directors.

BOARD DIVERSITY POLICY

The Board adopted the Board Diversity Policy since 26 November 2013, which sets the approach to achieve and maintain diversity of the Board to enhance quality of its performance. The Policy aims to achieve diversity through the consideration of a number of factors including but not limited to skills, regional and industry experience, background, age, race, gender and other qualities. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments are based on merit, in the content of the talents, skills and experience, and taking into account diversity.

The Nomination Committee will report annually on the composition of the Board under diversified perspective, and monitor the implementation of this policy to ensure its effectiveness. It will discuss any revisions that may be required and recommend such revisions to the Board for consideration and approval.

The following tables further illustrate the diversity of the Board members as of the date of this annual report:

	Age	Educational Background	Ethnicity		Relevant experience		
			Chinese	Japanese	Book & Packaging Printing	Banking	Law
Executive Directors							
Yum Chak Ming, Matthew	60	Industrial Engineering					
		Business Administration	√		√		
Sung Chee Keung	59	Printing Engineering	√		√		
Non-Executive Directors							
Sadatoshi Inoue	57	Education		√	√		
Hirofumi Hori	60	Economics		√	√		
Yoshihisa Suzuki	62	Literature		√	√		
Yam Hon Ming, Tommy	55	Economics	√		√		
Independent Non-Executive Directors							
Lo Chi Hong	72	Lexicography	√		√		
Luk Koon Hoo	67	Social Science in Statistics					
		Business Administration	√			√	
Yap, Alfred Donald	80	Law	√				√

AUDIT COMMITTEE

The Audit Committee comprises of 3 Independent Non-executive Directors and 1 Non-executive Director. They are Mr. Luk Koon Hoo (Committee Chairman), Mr. Alfred Donald Yap, Mr. Lo Chi Hong and Mr. Hirofumi Hori. The defined terms of reference of the Committee are set out in writing and are posted on the websites of the Company and the Stock Exchange.

The primary duties of the Audit Committee include reviewing the effectiveness of Company's internal control and the Company's internal audit function, risk management system and regulatory compliance, the review of the Company's financial information and compliance, making recommendation to the Board on the appointment and removal of external auditor and assessing their independence and performance.

During the financial year ended 31 December 2018, the Committee held four meetings and the attendance record are:

	Attendance
Luk Koon Hoo	4/4
Yap Alfred Donald	3/4
Lo Chi Hong	4/4
Hirofumi Hori	4/4

The work performed by the Committee during the year included the followings:

– reviewing with the auditor on key audit and accounting mattes, internal control recommendation of the auditor and updates on regulatory rules in the auditor's Audit Committee Report and the draft audited financial statements for the financial year ended 31 December 2017;

– reviewing the financial statements for the six months ended 30 June 2018 focusing on business highlights, any change of accounting policies and practices, and compliance with accounting standards and listing rules requirements;

– reviewing with the auditor the scope of their audit, their communication plan, their independence, developments affecting the Company's business, their risk assessment and updates of accounting standards and listing rules as affecting the Company for the financial year ended 31 December 2018;

– reviewing the audit plan, audit progress report and significant audit findings of the Internal Audit Department with management at all committee meetings;

– reviewing with management on implementation of the recommendations made by the Internal Audit Department;

– reviewing the risk management and internal control of the Group; and

– reviewing the continuing connected transactions for the financial year ended 31 December 2018.

The Committee is satisfied with the review of the work of external auditors, their audit fees, results of their audits and has recommended to the Board their re-appointment for the financial year ending on 31 December 2019 at the forthcoming annual general meeting.

COMMUNICATION WITH SHAREHOLDERS

The Company recognizes the importance of communication with the shareholders of the Company, both individual and institutional as well as potential investors. The Company adopted a Shareholders Communication Policy with an aim of ensuring shareholders are provided with timely information about the Company and enabling them to engage actively with the Company and to exercise their rights in an informed manner.

The annual general meeting also provides a good opportunity for communication between the Board and shareholders. The Executive Chairman of the Board, the Chairman of the respective Committees as well as the external auditors are normally present to answer questions as raised by shareholders. Notice of the AGM and the related circular are sent to shareholders at least 20 clear business days before the meeting.

Votes of the shareholders at general meeting will be taken by poll in accordance with the Listing Rules. Detailed procedures for conducting a poll will be explained to shareholders at the beginning of the general meeting to ensure that shareholders are familiar with the voting procedures. Each issue will be proposed by a separate resolution by the Chairman of the general meeting. The poll results will be posted on the websites of the Company and the Stock Exchange on the same day of the general meeting.

Shareholders holding not less than one-twentieth of paid-up capital of the Company can make a requisition to convene an extraordinary general meeting. The requisition must state the objects of the meeting and must be signed by the relevant shareholders and deposited at the Company's registered office.

Shareholders holding not less than one-fortieth of the total voting rights of all shareholders of the Company or not less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum of not less than HK$2,000 per shareholder can put forward proposals for consideration at a general meeting of the Company by depositing a requisition in writing signed by the relevant shareholders at the Company's registered office.

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at the Company's registered office. Shareholders are encouraged to access to the Company website at www.hunghingprinting.com for all relevant information including Company's announcements, press releases, financial highlights, financial calendar, the Company's constitutional documents and detailed procedures for shareholders to convene meetings.

INVESTOR RELATIONS

The Company has a proactive policy for promoting investor relations and communications by maintaining regular dialogue with institutional shareholders, fund managers, analysts and the media. Meetings and conference call were held with investors and analysts in order for the Company to understand their views and to keep them abreast of the latest developments. Inquiries on the Company were also dealt with in an informative and timely manner.

The Company's website at www.hunghingprinting.com also features a dedicated Investor Relations section to facilitate communication with shareholders and investors. Corporate information and other relevant financial and non-financial information are made available electronically and in a timely manner. Specific enquiries can also be addressed to the Company's designated personnel by email at ir.contact@hunghingprinting.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental, Social and Governance Report

2018 was a year defined by geopolitical and macroeconomic uncertainty. As one of the largest printers in Hong Kong and China, Hung Hing Printing Group Limited ("Hung Hing") invested in new technology to improve the production process and promote environmental protection. In the past five years, our investment in advanced and automated machinery, combined with career-focused training and development of our skilled workforce, has contributed to a 31% increase in productivity per employee, resulting in revenues of HK$3.2 billion in 2018 (2013: HK$3.0 billion) with a team of 8,223 employees (2013: 10,457).

As the effects of climate change become increasingly apparent, running a business with sustainability in mind is our responsibility as a corporate citizen and our obligation to the community, business partners and employees. This ethos is key to Hung Hing's long-term success, and in 2018, we committed an investment of more than HK$5.3 million in environmental projects, ranging from green energy and energy saving solutions

Hung Hing's environmental, social and governance (ESG) strategy evolved in the late 1990s and our ethical policy was established in 2003. Our latest corporate social responsibility (CSR) policy can be found via this link (http://www.hunghingprinting.com/en-US/ethical.php). Today, our ESG strategy is set by the Board of Directors and its execution is led by senior management staff at our Hong Kong headquarters. Each production site has an established ESG team who regularly provide reports to the senior management, visit government websites and attend conferences, to keep abreast of the latest developments in labour practice, environmental protection and workplace health and safety. We proactively prepare for all forthcoming regulations, which places us in a position of strength when it comes to our ongoing environmental, health and safety efforts. The number of inspections from regulatory bodies has increased significantly in the past two years and each has found our performance in these areas satisfactory.

The practice in place to execute and document our ESG strategy is well established. We have procedures to guide our daily operations, including a list of websites to check regulation updates, daily safety inspections of machinery and fire-fighting equipment, and other ESG-related activities.

We display our ESG policy and our employment law and regulation policy in all our offices and production sites. Orientation training is compulsory for all new employees, to ensure they are knowledgeable of their rights, occupational health and safety best practice, and the concept of environmental protection.

The ethical practices of our Group member companies are regularly audited by our customers as well as third parties as per industrial standards like ICTI-ETP (International Council of Toy Industries – Ethical Toy Program) and SMETA (Sedex Members Ethical Trade Audit), RBA (Responsible Business Alliance) and BSCI (Business Social Compliance Initiative). Audit results are disclosed on the websites of regulatory bodies and accessible to all members of the organisation who have an existing interest in Hung Hing.

Our environmental protection performance is also disclosed via CDP (https://www.cdp.net), a not-for-profit platform that runs a global disclosure system to help interested parties manage their environmental impact and Higg (https://apparelcoalition.org/the-higg-index/), a platform developed by Sustainable Apparel Coalition. Social responsibility information is disclosed in EcoVadis (www.ecovadis.com). Disclosing information in this way not only ensures our corporate governance is transparent, it also provides an invaluable opportunity for us to compare the benchmark performance of industrial peers. Guidelines in the websites and feedback from industry experts help us set improvement targets.

We strive to present emissions data from our operations to demonstrate KPI performance, with the reference source stated and listed where appropriate. For those not explicitly stated, we follow the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange of Hong Kong Limited.

If you would like to provide us with feedback or suggestions regarding our ESG report, please email: esg@hunghingprinting.com.

Scope of the Report

In 2018, the Group acquired a new subsidiary, Guangdong Rengo Packaging Co., Ltd. This report provides information relating to the full year business activities of Guangdong Rengo, as with other manufacturing sites and warehouse facilities directly controlled by the Group. Only scope 1 and scope 2 ESG data are included.

Stakeholder Engagement

To engage with our stakeholders, and to ensure we are disclosing the information that most concerns them, we have adopted a multichannel approach. Direct dialogue with stakeholders remains the most effective means of collecting stakeholder input, while participation in related industry platforms helps us collect intelligence specific to our industrial operations. Whether via our formal or informal channels; all stakeholder input is ranked according to the significance of the issue to them and to our operations, and information is disclosed accordingly.

The table below lists the channels through which we interact with our different stakeholders and the types of information collected:

Stakeholder	Activities	Information collected
Investors	Annual report; annual general meetings; company emails.	Concerns on compliance with evolving laws and regulations; business models that can support continued growth; business performance; adaptation of new technology.
Customers	Meetings; customer satisfaction surveys; factory audits; trade exhibitions; customers' request for information; global partners conference; websites of regulatory bodies.	International environmental and ethical trends; knowledge of new technologies and market trends; material supply stability and material safety; prompt delivery; intellectual property protection; modern slavery prevention.
Employees	Regular worker representative meetings; suggestion boxes; suggestion emails; dedicated email to Chairman and independent Board Director for whistle blowers; employee interest groups.	Suggestions on training, employee benefits, operational, factory and office facilities improvements; employee recreational activities.
Suppliers	Supplier survey questionnaires; site visits; trade shows; business meetings; strategy partnerships.	Cost impact of higher safety and environmental compliance requirements; procurement management.
Community	Engagement with NGOs and charitable organisations.	Labour rights; employee health and benefits; long term partnerships and collaboration with charitable organisations.
Government, Industry	Factory visits; seminars; industrial association gatherings.	Occupational health and safety; environmental protection; fire safety; career development opportunities.

Our ESG team will discuss, analyse and categorise information collected from our stakeholders, and then rank each issue according to the level of concern expressed by both the Group and by all stakeholders collectively. This is displayed in the material aspects chart below.

Environment

A. Use of sustainable raw materials
B. Environmental impact of our operations
C. Management and monitoring of environmental projects
D. Environmental audit and credibility
E. Energy use efficiency
F. Adoption of new technologies in environmental protection

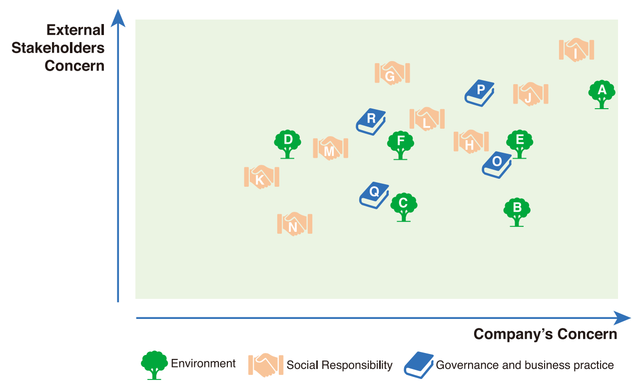
Social Responsibility

G. Protection of minors and provision of fair employment opportunities
H. Employee compensation and benefits
I. Fire safety
J. Occupational health and safety
K. Modern slavery prevention
L. Training and career advancement opportunities
M. Pleasant working environment
N. Contribution to community

Governance and business practice

O. Ethical conduct with business partners
P. Anti-corruption measures
Q. Prevention and reporting of misconduct
R. Intellectual properties protection

Material Aspects Chart



Environment

"Protecting the earth's environment, implementing clean production, and developing green culture." This is the foreword of Hung Hing's environmental policy, which lays the foundations of our approach to environmental protection. The full policy can be found on our company website: http://www.hunghingprinting.com/en-US/environmental.php.

Hung Hing endeavours to run a green business that uses environmentally friendly materials wherever possible. All our manufacturing sites in China are ISO14001 certified, which requires each factory to set up annual environmental targets that they are regularly measured against. These targets are defined in accordance with internal feedback and stakeholder concerns. In addition to annual audits of our environmental management system by third party organisations, we also submit our environmental performance data to various websites, either at factory or Group level, depending on the nature of the platform and request. Disclosing information via public websites is an efficient way for us to share our environmental performance with concerned parties, and an opportunity to gain valuable feedback that we can use to inform ongoing improvements.

Of the many targets we set, those relating to volatile organic chemical control and waste reduction are top of the list. In 2018, we were able to reduce VOCs by 12% per unit of sales[1], and hazardous waste by 16%. This has been the result of continuous investment, regular training to raise environmental awareness amongst our employees and close cooperation with our business partners.

To reduce VOCs, our staff list all material with high VOC content and replace it with environmentally friendly substitutes that have undergone thorough tests to ensure there are no adverse effects to the environment and quality of the products – in many cases with the full support of our suppliers. After the successful installation of a central ink supply system to our Heshan factory in 2017, we have replicated the system in our Shenzhen factory this year. The new system uses reusable containers that hold 200 kg of ink, in place of the 2.5 kg capacity metal containers of old. This has eliminated 6,000 kg of hazardous waste annually.

As a result of the proactive measures we take towards environmental protection, and the high level of environmental awareness that our staff have from regular training, we are well prepared for inspections by government authorities at any time. In 2018, these authorities have expressed their satisfaction with our high compliance in all their visits.

1. Unit of sales = HK$1 million

We have regular dialogue with suppliers to communicate our philosophy on sustainable manufacturing and to exchange ideas on how we can make our production processes even more environmentally friendly. At the other end of the supply chain, we always share our expertise in environmentally friendly product design with customers to help them reduce their carbon footprint. We can help them reduce the size of their packaging, for example, which not only uses less material, but also reduces the carbon emissions that result from the products' transportation.

Use of Energy

Energy is the highest source of greenhouse gas emissions within our operation and we are committed to using greener alternatives wherever possible. As electricity has no direct emission, one of the steps we have taken is to replace a number of our diesel forklift trucks with electric varieties to strengthen our compliance with Chinese air pollution regulations[2]. As of the end of 2018, we have replaced 31 forklift trucks across our operation, which allows us to save around 30,000 litres of diesel annually. As the electricity supply in China becomes more stable – with no reports of electricity outages in 2018 – we have also minimised the number of maintenance runs completed by our backup generators in the factories, which has further reduced our diesel consumption.

2. Atmospheric Pollution Prevention and Control Law of the People's Republic of China

During the reporting period, our Shenzhen plant and Hong Kong office have each replaced one air conditioning unit, these are more energy efficient and it is estimated they will save a total of one million kWh of energy annually. The vast majority of our HGVs use diesel fuel. All vehicles under the Group's control that operate in Hong Kong comply with Euro V emissions standards or higher, while those in China comply with the standards[3] required by each area we operate within.

In 2018, we purchased an electric passenger vehicle in China to test its suitability for our operation, including the mileage it can cover and the charging locations, its durability and reliability. We have also committed to installing 200 kWp[4] solar panels onto our Hong Kong office building, which is estimated to generate an annual electricity output of more than 200,000 kWh, and to reduce our CO2e emissions by 100+ tonnes. An added benefit is the lower indoor temperature the solar panels result in, which will further reduce the use of electricity for air conditioning.

3. Measures on Supervision of Exhaust Pollution from Automobiles in the People's Republic of China
4. kWp = kilo Watt at peak output of solar panel

In our Heshan factory, we have invested in a new technology that helps reduce electricity consumption of our air conditioning system. A Physical Electrochemical Water Descaling System has been installed in the cooling tower which keeps the water pipes free from limescale build-up and suppresses the growth of algae in the water to ensure the air conditioning operates at the highest efficiency. The estimated saving in electricity is around 163,000 kWh per year.

The company have invested over HK$4 million in the above energy saving projects.

We have participated in the "Hong Kong – Guangdong Cleaner Production Partner program" supported by the Hong Kong government since 2009. 2018 is the tenth consecutive year we have received an award in recognition of our efforts in environmental protection.

Use of Resources

Paper is the most important raw material in our business. With efficient and responsible management throughout the supply chain, paper made from wood fibre is also a renewable and sustainable resource. The Group has therefore established a paper policy to ensure this vital resource is purchased and consumed in a responsible manner.

We encourage customers to use paper with high recycled content wherever it is suitable. Chain of Custody certified paper is also recommended to ensure the source is from well-managed forest plantations, which are run in accordance with the law and that benefit the local community. Though it's not possible to guarantee that all of our paper has recycled or certified origins, we will never purchase paper from unknown or illegal origins.

Governed by our paper policy, all paper mills we deal with directly have either one or both of the world recognised forest management certifications. The PEFC (Programme for the Endorsement of Forest Certification) is the world's largest forest certification system, while the FSC® (Forest Stewardship Council) is well recognised by most environmental protection organisations for its stringent requirements throughout the supply chain. Our paper trading arm and factories that use virgin pulp paper have either one or both Chain of Custody certificates, so we can recommend our customers to use the certification logo as a way to further support our forests. In 2018, we consumed over 55,100 tonnes of certified paper, and 120,000 tonnes of high recycled content paper, which amounted to a total of more than 94% of all paper used in production. Waste paper in production is sold back to the paper mills for recycling, a step that also complements our sustainability efforts.

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Water supply is stable and reliable throughout all our factories. As water is a vital resource in our lives and business, we are doing our utmost to ensure safe potable water is available to all employees, and that it is regularly tested for contamination. Water used within production is filtered and recycled wherever possible.

Under the ISO14001 standard, we have established procedures to ensure water is used responsibly. All taps are fitted with flow control devices to reduce wastage and pipes are regularly inspected to prevent leaks. After the fire hose was upgraded in 2017, no major water leaks have since been reported. The Physical Electrochemical Water Descaling System installed in the cooling tower at our Heshan factory has also helped reduce the need to change cooling water frequently. In 2018, water consumption per unit of sales[5] was 371 tonnes, which is slightly less than the 372 tonnes reported in 2017.

5. Unit of sales = HK$1 million
6. Regulation on the Management of the Shifting of Hazardous Waste (危險廢物轉移聯單管理辦法)
7. Water Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國水污染防治法)

Waste Handling

We strive to reuse all material that has come to the end of its primary purpose. Carton boxes and wooden pallets that are received with deliveries are reused for internal transportation, while scrap paper from production is sometimes used to make prototypes and test construction concepts. At the end of its life, material is either recycled or disposed of responsibly. In 2018, we recycled 49,523 tonnes of paper, 286 tonnes of metal, 1,016 tonnes of wood and 632 tonnes of plastic. All hazardous waste is collected by authorised and qualified agents[6], while non-hazardous waste is disposed of as domestic waste. Treated waste water is discharged into the sewage system and its quality is regularly tested to ensure compliance with water pollution control regulations[7].

Social Responsibility

Employment

Operating ethically is a fundamental principle to ensuring our employees are treated fairly, work in a safe environment and are rewarded with competitive remuneration. This is how we attract talented employees to achieve our business goals and sustainability targets. The Group's ethical policy is displayed in all of our sites and on our website. The policy and operating procedure outlines our employment practice, including freedom of association, child labour and forced labour, discrimination and fair reward. We provide orientation training to new employees that covers the ethical policy, environmental policy and our zero-tolerance approach to bribery or conflict of interest acts. All employees receive payroll on time and with details of payment and statutory deductions. Our employment practice complies with the local labour laws of where we operate[8].

Over the past few years, a growing number of UK customers have asked about our preparedness for the Modern Slavery Act[9], which is effective as of 2015 in the UK. While we have eliminated slavery and human trafficking within our recruitment practice, the production plants which handle most of our export business (Shenzhen and Heshan factories) have updated their recruitment procedures with additional checkpoints in line with customer expectation.

A number of different channels are available to receive complaints of any kind. Issues can be raised anonymously, and we have procedures in place to conduct investigations confidentially by the site management locally or by senior management at the company headquarters, depending on the nature of the complaint and the channel it was reported through.

To maintain communication with employees, we circulate a monthly newsletter across the Group with columns written by employees on various topics. We also hold regular meetings with worker representatives to collect feedback and discuss suggestions to improve fire safety and occupational health and safety.

8. Labor Contract Law of the People's Republic of China, Hong Kong – The Employment Ordinance
9. UK Modern Slavery Act 2015

Development and training

Training is key to ensuring our employees are engaged productively in their work with regular opportunities for career development. We provide orientation training to all new employees to ensure they can work safely within the company environment and have the knowledge they need to fulfil their role. During the course of employment, various internal and/or external training courses are provided to employees operating at all levels to equip them with the skillset to advance their career. We may reimburse fees for completing professional courses if it is of benefit to both the employee and the company.

Health and safety

It is our obligation to provide a safe and healthy working environment for our employees. With this in mind, a safety evaluation is carried out for all new or reinstalled machines, which includes a risk assessment of the environment, operation method and use of material. A safety operating procedure is also in place whereby floor managers must regularly inspect the machine operating condition to ensure that operators are adhering strictly to safety practices.

All chemicals stored on the factory floor must be accompanied by a Material Safety Data Sheet (MSDS). Our staff will study information on the MSDS and establish the precautions necessary to ensure the safety of our employees, including the provision of personal protective equipment. Employees who work in high noise level area or who handle hazardous chemicals will undergo annual health check-ups. Throughout all of our production sites, we perform regular inspections of working areas, as well as air quality checks to ensure compliance with the relevant Chinese regulations[10]. To remain on high alert of any potential risks, floor managers must attend periodic refresher training on work floor safety.

In 2018, we joined a UK publishing industry association's program to improve health and safety in our industry, which includes floor management training and sharing of industry best practice.

10. Regulation on the Safety Management of Hazardous Chemicals at Workplace and Law of the Peoples Republic of China on Prevention and Control of Occupational Diseases

Governance

Supply chain management

Hung Hing's philosophy is to build long-lasting relationships with our business partners, so we can share and meet each other's expectations. We consider suppliers an integral part of our business; without their support and cooperation, we cannot produce high quality and reliable products to our customers, and as such, we expect our suppliers to share our high expectations on ethical and sustainable practices. To meet these goals, we believe open and transparent communication with every level of staff at our supply chain is key. Our environmental policy and business ethics are communicated through formal questionnaires, and performance in these areas is regularly discussed during meetings with supplier's management. Those top 30 suppliers account over 75% of our purchase amount, they all have ISO14001 certificates.

We work with our suppliers to ensure both waste and cost within the supply chain are kept as low as possible for a sustainable relationship all round. Most of our waste paper is sold back to our paper suppliers; we also return some containers back to our suppliers for re-use. Wherever possible, it is our preference to work with local suppliers in order to reduce transportation time and carbon emissions.

Anti-corruption

Business integrity is the framework of our long-term development. Without it, we cannot build long-term relationships with our customers and suppliers, or the mutual trust of our employees. Our anti-bribery policy has been posted in all factory meeting rooms so that our visitors can read and become aware of it. Every year, we circulate an email to employees with our code of conduct to remind them of the company's zero-tolerance policy on bribery.

Our whistle blower policy has also been posted across all our sites and on the Group websites, including the procedure for logging complaints.

The Group has instituted a Supervision Committee to focus on legal compliance and operational integrity. This is led by senior management at the Group's headquarter office to help factory management identify and implement proactive measures. In 2018, the committee found all factory operations satisfactory and provided advice on how we can strengthen awareness of safety and anti-corruption.

During the reporting period, no complaints were received through the whistle blower channel. We are not aware of any legal proceedings regarding corruptive practices that have been brought against our Group or our employees.

Customer satisfaction

Our customers expect us to deliver quality products and services, while running our business in a way that has less impact on the environment. We are achieving this by implementing the ISO9001 quality management standard to uphold quality, and the ISO14001 environmental management standard to ensure environmental sustainability. We work together with customers to handle new challenges, develop new technology and drive new businesses.

To ensure product quality and safety, our raw materials are regularly tested in compliance with Rohs (European Union Restriction of Hazardous Substances Directive 2002/95/EC) and 94/62/EC European Union packaging waste regulation at a minimum. Materials used in children's products must comply with EN71 European Union Toys safety regulation, ASTMF963-16 Standard Consumer Safety Specification on Toy Safety and ISO8124 International toys safety standard. In the event of a customer complaint, we have procedures in place to investigate the cause and provide corrective and preventive measures to rectify the situation.

We have established an Intellectual Property (IP) protection procedure to ensure products with confidential IP content are produced in a strictly controlled environment to prevent the content from being leaked. Our factories that produce products for export also implement logistics security control procedures that adhere to US CT-PAT (Customs Trade Partnership against Terrorism) requirements.

In 2018, the General Data Protection Regulation (GDPR) was implemented in Europe, which our UK customers must now comply with. We have scrutinised our database and operating procedures to ensure only the personal information of a customer necessary for contact purposes is stored in our database. Personal data is protected and cannot be used for any other purpose.

Community Involvement

Hung Hing is part of the community we operate within; the wellbeing of this community is intrinsically linked to the company and our employees. We therefore encourage employees to participate in voluntary work, and to donate to charities if they are willing to. Information received on charitable events is posted on our notice boards. The company also sponsors scholarship programs in subjects relating to our business, and donates to charitable bodies. The Group also works with an NGO, which we support both financially and with our printing services. In this way, we can acquire greater insight into how the charity is run and identify other ways we can meet the community's need.

We have participated in the Caring Company program for more than 12 years. In 2018, our total donation came to HK$111,730.

ESG PERFORMANCE DATA

Subject Area A – Environment				
Aspect A1: Emissions				
Performance Indicator		**2018 Data**	**2017 Data**	**HKEx ESG Report Guide KPI**
Emission*	Total sulphur dioxide SO_2 emission (tonne)	4.91	5.46	KPI A1.1
	Total Carbon Monoxide CO (tonne)	0.07	0.08	KPI A1.1
	Total Volatile Organic Chemicals emission (tonne) (From production)	224.67	242.29	KPI A1.1
	Total Carbon Dioxide emission (CO_2) (tonne)	20,645.94	18,378.23	KPI A1.1, A1.2
	Direct emission (Fuel, Natural Gas, Town Gas, Fire Extinguishers)	6,545.64	5,015.27	KPI A1.1, A1.2
	Indirect Emission (Electricity consumed, Town Gas)	9,635.00	13,362.96	KPI A1.1 A1.2
	Total nitric oxide NO_x emission (tonne)	0.33	0.37	KPI A1.1 A1.2
	Total greenhouse gas emission per million HKD of goods sold (tonne CO_2e)	5.63	5.90	KPI A1.2
Hazardous Waste	Solid and liquid hazardous from production and water treatment	507.09	579.55	KPI A1.3
	Total hazardous waste produced per million HKD of goods sold (tonne)	0.15	0.18	KPI A1.3
Non-hazardous Waste	Non-hazardous waste (tonne) (Office waste, paper, plastic not suitable for recycle, household waste from canteen and dormitories)	1,501.11	1,218.99	KPI A1.4
	Total non-hazardous waste produced per million HKD of goods sold (tonne)	0.46	0.39	KPI A1.4
Aspect A2: Use of Resources				
Energy	Fuel and Gas (MWh)	31,154	23,407	KPI A2.1
	Electricity (MWh)	69,204	65,552	KPI A2.1
	Energy consumed per million HKD of goods sold (MWh)	31	28	KPI A2.1
Water	In M^3 (Consumption by production, canteen and dormitory)	1,217,929	1,167,380	KPI A2.2
	Water consumed per million HKD of goods sold (M^3)	371	372	KPI A2.2
Paper	Total paper consumed by production (tonne)	185,332	197,253	KPI A2.2
Packaging material	Packaging materials are mainly nylon tape and PP shrinkage film (tonne)	470.68	925.17	KPI A2.5
	Packaging materials consumed per million HKD of goods sold (tonne)	0.14	0.30	KPI A2.5

Subject Area B – Social				
Employment and Labour Practices				
Aspect B1: Employment				
Performance Indicator		**2018 Data**	**2017 Data**	**HKEx ESG Report Guide KPI**
Workforce	Total	8,223	8,629	KPI B1.1
	By gender			KPI B1.1
	Male	3,930	3,931	KPI B1.1
	Female	4,293	4,698	KPI B1.1
	By employment category			KPI B1.1
	Senior management – male	146	126	KPI B1.1
	– female	65	54	KPI B1.1
	Middle management – male	493	295	KPI B1.1
	– female	568	427	KPI B1.1
	Worker – male	3,290	3,508	KPI B1.1
	– female	3,661	4,219	KPI B1.1
	By age group			KPI B1.1
	At and below 30	1,923	2,371	KPI B1.1
	> 30–50	5,816	5,879	KPI B1.1
	over 50	484	379	KPI B1.1
	By geographic location			KPI B1.1
	Eastern China	505	539	KPI B1.1
	Southern China	7,413	7,753	KPI B1.1
	Hong Kong	305	337	KPI B1.1
Employee turnover rate	Total (%)	53	53	KPI B1.2
	By gender			KPI B1.2
	Male (%)	54	47	KPI B1.2
	Female (%)	53	58	KPI B1.2
	By age group			KPI B1.2
	At and below 30 (%)	75	74	KPI B1.2
	> 30–50 (%)	30	27	KPI B1.2
	over 50 (%)	20	17	KPI B1.2
	By geographic location			KPI B1.2
	Eastern China (%)	42	43	KPI B1.2
	Southern China (%)	54	55	KPI B1.2
	Hong Kong (%)	13	9	KPI B1.2

Aspect B2: Health and Safety				
Performance Indicator		**2018 Data**	**2017 Data**	**HKEx ESG Report Guide KPI**
Incident	Number of incident	24	25	KPI B2.1
	Number of work-related fatalities	0	1	KPI B2.1
	TIR (Total Incident Rate = number of incident per 200,000 work hours)	0.21	0.21	KPI B2.1
Lost days	Number of days lost due to work injury	1,116	1,289	KPI B2.2
	LTIR (Lost Time Injury Rate = number of days lost per 200,000 work hours)	79.74	85.63	KPI B2.2
Aspect B3: Development and Training				
Attendee	Total	67,793	90,806	KPI B3.1
	By gender			
	Male	31,214	34,283	KPI B3.1
	Female	36,579	56,523	KPI B3.1
	By employment category			
	Senior Management	0.16%	0.18%	KPI B3.1
	Middle management	2.48%	2.55%	KPI B3.1
	Worker	97.14%	96.83%	KPI B3.1
Training hour	Total	241,128	321,051	KPI B3.2
	By gender			KPI B3.2
	Male	3.81	3.44	KPI B3.2
	Female	3.34	3.59	KPI B3.2
	By employment category			KPI B3.2
	Senior Management	8.01	8.01	KPI B3.2
	Middle management	7.12	4.25	KPI B3.2
	Worker	3.47	3.52	KPI B3.2

Operating Practices				
Aspect B5: Supply Chain Management				
Performance Indicator		**2018 Data**	**2017 Data**	**HKEx ESG Report Guide KPI**
Active Supplier	In China	1,045	1,948	KPI B5.1
	In Hong Kong	77	264	KPI B5.1
Aspect B6: Product Responsibility				
	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	0.0000%	0.0000%	KPI B6.1
	Number of products and service related complaints received	483	222	KPI B6.2
Community				
Aspect B8: Community Investment				
	Total value of money and product donation	160,450	167,000	KPI B8.2

* Diesel and gasoline emission data according to GHG emission from mobile combustions sources in Appendix 2:Report Guidance on Environmental KPIs http://www.hkex.com.hk/-/media/hkex-market/listing/rules-and-guidance/other-resources/environmental-social-and-governance/how-to-prepare-an-esg-report/app2_kpis
Towngas direct emission data according to Towngas bill data; Towngas indirect emission data according to Towngas 2017 Sustainability Report – http://www.towngas.com/en/Social-Responsibility/Sustainability-Report
Natural gas emission data according to 2006 IPCC Guidelines for National Greenhouse Gas Inventories http://www.ipcc-nggip.iges.or.jp/public/2006gl/index.html
China electricity emission data according to China Southern Grid 2017 Corporate Social Responsibility Report http://www.csg.cn/shzr/lshb/201805/P020180509622809911015.pdf
Hong Kong electricity emission data according to CLP 2017 Sustainability Report https://www.clpgroup.com/en/sustainability/sustainability-reports?year=2017

2018 HONG KONG STOCK EXCHANGE ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONTENT INDEX

Subject Area A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Page 33~34 36~41
KPI A1.1	The types of emissions and respective emission data.	Page 46
KPI A1.2	Greenhouse gas emissionsin total (in tonnes) and, where appropriate, intensity(e.g. per unit of production volume, per facility). Scope 1 emissions	Page 46
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Page 46
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity	Page 46
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Page 37~39
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Page 40~41
Aspect A2: Use of Resources		
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Page 38~41
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).	Page 46
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Page 46
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Page 38~39
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Page 41
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Page 46
Aspect A3: The Environment and Natural Resources		
General disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Page 37~41
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Page 37~41

Subject Area B. Social		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) 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.	Page 34, 42~43
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Page 47
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Page 47
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) 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.	Page 43
KPI B2.1	Number and rate of work-related fatalities.	Page 48
KPI B2.2	Lost days due to work injury.	Page 48
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Page 43
Aspect B3: Development and Training		
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Page 43
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Page 48
KPI B3.2	The average training hours completed per employee by gender and employee category.	Page 48
Aspect B4: Labour Standards		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Page 42
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Page 42
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Page 42

Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Page 44
KPI B5.1	Number of suppliers by geographical region.	Page 49
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.	Page 44
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Page 45
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Page 49
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Page 45, 49
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Page 45
KPI B6.4	Description of quality assurance process and recall procedures.	Page 45
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Page 45
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Page 44
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Page 44
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Page 44
Community		
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Page 45
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Page 45
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Page 49

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year consisted of investment holding and the provision of management services.

The principal activities of the Group during the year consisted of the book and package printing, the consumer product packaging, the corrugated box and the trading of paper. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

A review of the business of the Group during the year as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Chairman's Statement, Management Discussion and Analysis and Business Unit Report set out on pages 5 to 22.

RESULTS AND DIVIDENDS

The Group's results for the year and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 71 to 164.

An interim dividend of HK3 cents per share was paid on 24 October 2018. The directors recommend the payment of a special dividend of HK4 cents per share and a final dividend of HK3 cents per share to shareholders on the register of members on 3 June 2019. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the equity section of the statement of financial position.

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below. This summary does not form part of the audited financial statements.

Results

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	**3,276,800**	3,135,659	2,955,924	3,036,933	3,015,918
Operating (loss)/profit	**(73,130)**	1,206,845	66,399	71,659	41,038
Finance costs	**(4,558)**	(6,192)	(5,972)	(6,632)	(9,538)
(Loss)/profit before income tax	**(77,688)**	1,200,653	60,427	65,027	31,500
Income tax	**5,544**	(145,104)	(18,087)	(22,516)	(22,107)
(Loss)/profit for the year	**(72,144)**	1,055,549	42,340	42,511	9,393
(Loss)/profit attributable to:					
Equity shareholders of the Company	**(74,518)**	1,050,483	37,785	38,199	7,914
Non-controlling interests	**2,374**	5,066	4,555	4,312	1,479
	(72,144)	1,055,549	42,340	42,511	9,393
(Loss)/earnings per share					
Basic	**(8.3) cents**	116.7 cents	4.2 cents	4.2 cents	0.9 cent
Diluted	**(8.3) cents**	116.3 cents	4.2 cents	4.2 cents	0.9 cent

SUMMARY FINANCIAL INFORMATION (CONTINUED)

Assets, liabilities and non-controlling interests

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Current assets	**2,594,254**	3,253,787	2,188,635	2,177,363	2,385,554
Non-current assets	**1,471,989**	1,290,025	1,303,135	1,355,670	1,428,923
Total assets	**4,066,243**	4,543,812	3,491,770	3,533,033	3,814,477
Current liabilities	**508,263**	540,991	523,089	577,686	718,900
Non-current liabilities	**160,065**	187,799	210,434	143,472	251,525
Total liabilities	**668,328**	728,790	733,523	721,158	970,425
Non-controlling interests	**153,519**	158,309	145,391	155,184	158,803
Equity attributable to equity shareholders of the Company	**3,244,396**	3,656,713	2,612,856	2,656,691	2,685,249

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 28 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year, except that the trustee of the Restricted Share Award Scheme, pursuant to the terms of the rules and trust deed of the Restricted Share Award Scheme, purchased on the Stock Exchange a total of 3,510,000 shares of the Company at a total consideration of HK$6,341,000 during the year ended 31 December 2018.

RESERVES

Details of the movement in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and in note 31 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

The Company's distributable reserve as at 31 December 2018, calculated under Part 6 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and with reference to the "Guidance on the Determination of Realised Profit and Losses in the Context of Distributions under the Hong Kong Companies Ordinance" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), amounted to HK$686,824,000 (2017: HK$1,021,391,000), of which HK$36,315,000 (2017: HK$245,124,000) has been proposed as a special dividend and HK$27,236,000 (2017: HK$27,236,000) has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$112,000 (2017: HK$124,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 32% of the total purchases for the year and purchases from the largest supplier included therein amounted to 13%.

None of the directors; their close associates; or any shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Yum Chak Ming, Matthew
Sung Chee Keung

Non-executive directors:
Sadatoshi Inoue
Hirofumi Hori
Yoshihisa Suzuki
Yam Hon Ming, Tommy

Independent non-executive directors:
Lo Chi Hong
Luk Koon Hoo
Yap, Alfred Donald

DIRECTORS (CONTINUED)

In accordance with the Company's articles of association, the following directors will retire by rotation:

Sung Chee Keung
Yam Hon Ming, Tommy
Yap, Alfred Donald

All the retiring directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Corporate Governance Code of the Listing Rules, if an independent non-executive director serves more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Yap, Alfred Donald and Mr. Luk Koon Hoon have served the Company for more than nine years. They, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Yap Alfred Donald, Mr. Luk Koon Hoo and Mr. Lo Chi Hong and as at the date of this report still considers them to be independent.

DIRECTORS OF SUBSIDIARIES

The following is the list of directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2018 and up to the date of this report.

Chan Siu Man, Alvin
Chong Wai Kan, Winky
Lam Yuen Wai, Gary
Lau Ching Wai Peter
Lau Wing Kit, Tommy
Lee Ho Lap Richard
Li Zhi Da
Lim Pheck Wan, Richard
Ling, Richard
Shek Kwok Man
So Ching Tung, Tony
Song Zhi Yi
Sung Chee Keung
Wu Hui Bin
Yam Ho Ming, Michael
Yum Carson, Christopher
Yum Chak Ming, Matthew
Yum Kevin, Nicholas
Zheng Young Hang (resigned on 1 January 2019)

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Executive directors

Mr. Yum Chak Ming, Matthew, aged 60, is the Executive Chairman of the Group. He has been a director of the Company since 1991. He holds a Bachelor of Applied Science degree in Industrial Engineering and a Master of Business Administration degree in Marketing and Finance, both from the University of Toronto, Canada. He is responsible for the overall management of the Group. He has been with the Group since 1983.

Mr. Sung Chee Keung, aged 59, is the Executive Director, Consumer Product Packaging. He is responsible for overseeing the operation of the Group's Consumer Product Packaging business in the People's Republic of China ("the PRC"). He holds a Bachelor of Science degree in Printing Engineering from Rochester Institute of Technology, U.S.A. He has over 30 years of experience in the printing industry and has been with the Group since 1986. He became a director of the Company in September 2008.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (CONTINUED)

Non-executive directors

Mr. Sadatoshi Inoue, aged 57, is a member of the board of directors and the Managing Executive Officer of Rengo Co., Ltd. ("Rengo"), a substantial shareholder of the Company with responsibility of overseeing sales and marketing of Packaging Buisness Unit. He also sits on the board and serves as a President of Rengo Riverwood Packaging Co., Ltd. He holds a Bachelor of Education from Ashiya University, Japan. Mr. Inoue joined Rengo in 1985 and since then has held various positions in Rengo. Mr. Inoue has been a member of the board of director of Rengo since June 2012.

Mr. Hirofumi Hori, aged 60, is a member of the board of directors of Rengo and is the Managing Executive Officer with responsibility of overseeing the Overseas Business Group of Rengo. He holds a Bachelor of Economics from Wakayama University, Japan. Mr. Hori joined Rengo in 1981 and since then has held various positions in Rengo. He has been a member of the board of directors of Rengo since June 2014.

Mr. Yoshihisa Suzuki, aged 62, is the General Manager of the China Business Promotion Office in the Administration Unit of Rengo. He holds a Bachelor of Literature from the Beijing Language and Culture University, the PRC. Mr. Suzuki has been with Rengo since 1995 in various positions.

Mr. Yam Hon Ming, Tommy, aged 55, holds a Bachelor of Arts degree in Economics from York University, Canada. Mr. Yam has significant management experience in the printing industry. He was a non-executive director of the Company from 1991 to 1996. He re-joined the Company in 1999 and served as an executive director of the Company from July 2000 to July 2008. He was also the general manager of Hung Hing Packaging (Wuxi) Company Limited, a subsidiary of the Company, and was responsible for its general management between 2002 and 2008. He is a brother of Mr. Yum Chak Ming, Matthew.

Independent non-executive directors

Mr. Lo Chi Hong, aged 72, was a Board Director and Vice President of Sino United Publishing (Holdings) Limited and is an advisor to the group chairman of the Hung's Food Group which runs the restaurant and bakery chain under the "Yoshinoya" and "Maria's Bakery" brand names respectively. He has held senior managerial roles in the publishing industry over the last 30 years. From 1996 to 2007, he served as the chief executive officer of C&C Joint Printing (HK) Limited. Mr. Lo has also held a number of public posts in Hong Kong and the PRC including acting as the chairman of the Advisory Board of the Hong Kong Institute of Print-media Professionals, an honorary president of the Chinese Manufacturers' Association of Hong Kong and an honorary president of the Hong Kong Printers Association. He served as a vice president of the Printing Technology Association of China, a council member of the World Print and Communication Forum (WPCF), a member of the Hong Kong Council for Accreditation of Academic & Vocational Qualifications and a member of the SME Development Fund Vetting Committee, and was the founding chairman of the Hong Kong Publishing Professionals Society. In 2005, Mr. Lo was awarded the Medal of Honour by the HKSAR Government. He was also the recipient of the Outstanding Achievement Award presented by the Hong Kong Print Awards in 2007. Mr. Lo was a PHD Candidate of Peking University in China in 1985.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (CONTINUED)

Independent non-executive directors (continued)

Mr. Luk Koon Hoo, aged 67, has been an independent non-executive director of the Company since August 2008. He is a retired banker and has 30 years of comprehensive experience in accounting and financial management. He joined Hang Seng Bank in 1975 and became the bank's Chief Financial Officer in 1989. He was appointed Executive Director and Deputy Chief Executive in 1994 and was subsequently re-designated as Managing Director until his retirement in 2005. Mr. Luk is currently an independent non-executive director of four publicly-listed companies in Hong Kong, namely, China Properties Group Limited, Computime Group Limited, i-Cable Communications Limited and Harbour Centre Development Limited. Mr. Luk also serves as a council member of The Chinese University of Hong Kong and a member of Urban Renewal Authority. Mr. Luk graduated with a Bachelor of Social Sciences Degree in Statistics from The University of Hong Kong and also holds a Master of Business Administration Degree granted by The Chinese University of Hong Kong. He is a Fellow of the Hong Kong Institute of Bankers. Mr. Luk is a Non-official Justice of the Peace and was awarded the honour of Bronze Bauhinia Star in 2004 in recognition of his contributions to public services.

Mr. Yap, Alfred Donald, JP, aged 80, is presently a consultant of Messrs. K.C. Ho & Fong, Solicitors & Notaries and also of Messrs Yap & Lam, Solicitors and Notaries. He is the former president of The Law Society of Hong Kong and of The Law Association for Asia and The Pacific (LAWASIA). He has served on various public and community bodies. Mr. Yap is currently an independent non-executive director of eSun Holdings Limited, and Wong's International Holdings Limited, which are listed on the Stock Exchange. He became a director of the Company in March 2005.

Senior management

Mr. Shek Kwok Man, aged 54, is the Chief Financial Officer and Company Secretary of the Group, providing overall financial leadership in matters related to mergers & acquisitions, investor relations, accounting, planning & reporting, treasury, and financial management of all manufacturing operations. He is also responsible to support the Group's board of directors on all the board related activities, and handle listing and regulatory affairs as the Group's authorized representative required under the Hong Kong Stock Exchange Rules on Listing Matters and the company Ordinance. Mr. Shek joined the Group in February 2013, bringing with him over 25 years of management experience in senior executive roles with world-renowned multinational corporations such as IBM, Bausch & Lomb, Philip Morris/Kraft Foods, Thomson Reuters, Wrigley, Mead Johnson, Hershey's and Associated British Foods. He has been assigned to station in various locations including Tokyo, Guangzhou, Beijing and Shanghai in addition to Hong Kong. Mr. Shek is a member of the Institute of Chartered Accountants in England and Wales (ICAEW) as well as the Hong Kong Institute of Certified Public Accountants (HKICPA). He graduated from the University of Hong Kong with a BSSc (Hons) degree, and holds a MBA with Manchester Business School, UK and Master of Science – Marketing (MSc-Mktg) with Napier University, Edinburgh, Scotland.

Mr. Wong Fu Cheung, Dennis, aged 58, is the General Manager, Corporate Responsibility and Compliance and is responsible for overseeing improvements in quality (assurance and control), safety, ethics and sustainability initiatives. He holds a Bachelor of Science degree in Computational and Statistical Science from the University of Liverpool and a Master of Business Management degree from University of Bradford both in U.K.. He has been with the Group since 1992.

Mr. Song Zhi Yi, aged 57, is responsible for the management of the Group's manufacturing operations in Shenzhen and Heshan. He holds a Bachelor's degree in Forestry from the Southern China Agricultural University, the PRC. He has been with the Group since 1990. He is a brother of Mr. Sung Chee Keung.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (CONTINUED)

Senior management (continued)

Mr. Chan Siu Man, Alvin, aged 60, is responsible for the Group's manufacturing operation in Hong Kong as well as the supply chain and procurement operations of the Group. He holds a Bachelor of Applied Science degree in Electrical Engineering from the University of Toronto. He has been with the Group since 1990. He is the brother-in-law of Mr. Yum Chak Ming, Matthew.

Ms. Chong Wai Kan, Winky, aged 48, is responsible for the management of the Group's paper trading business. She has over 20 years of experience in paper trading and has been with the Group since 1992.

Mr. Lim Pheck Wan, Richard, aged 53, is the Chief Operations Officer of the Group's book and package printing business. He is responsible for the day-to-day operations and execution of the BPP's strategy. He holds a Master's Degree in International Marketing from the University of Strathclyde, Glasgow. He has over 20 years experience in the printing business and has managed operations in Singapore/Malaysia and Eastern China. He has been with the Group since July 2011.

Mr. So Ching Tung, Tony, aged 48, is responsible for the management of the corrugated box business in Hong Kong, Shenzhen and Foshan. He holds a Bachelor of Science degree (Honours) in Chemistry from the Hong Kong Baptist University and a Master of Business Administration degree from The Hong Kong Polytechnic University. He has been with the Group since 2006.

Mr. Yu Yan Yee, aged 49, is the Chief Information Officer of the Group. In this capacity, he is responsible for formulating the Group's information technology (IT) strategy, overseeing all aspects of IT function, and driving enterprise – wide digital transformation across its five location in supporting the Group's business vision. Prior to joining the Company, Mr. Yu had spent 10 years with IBM Global Business Services (US and HK), advising and driving technology agenda for organizations in a wide range of industries. He holds a Bachelor of Science degree (cum laude) in Mechanical Engineering from Louisiana Tech University, USA, a Master of Business Administration degree from Boston University, USA, and a Master of Science degree in IT from the Hong Kong University of Science and Technology. Mr. Yu was the recipient of numerous industry recognitions, notably 2018 IDC DX (Digital Transformation) Leader of the Year, 2017 China CIO Award, 2017 Hong Kong CIO Award for Medium Enterprise, and 2014 Hong Kong ICT Award. He has been with the Group since May 2012.

Mr. Yum Carson, Christopher, aged 33, is responsible for the sales and marketing operations of the Group's book and package printing business. He holds a Bachelor of Arts degree in Business Management from Coventry University, UK. He has over 10 years of experience in the printing business, and has been with the Group since 2007. He is the son of Mr. Yum Chak Ming, Matthew.

Mr. Yum Kelvin, Nicholas, aged 31, is the manager of Beluga Limited, focuses on the design and creation of high-tech printed products. He holds a Bachelor of Science degree in Business Management from University of St. Andrews, UK. He has been with the Group since 2011. He is the son of Mr. Yum Chak Ming, Matthew.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors or remuneration committee with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2018, the interests of the directors in the share capital and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest					
Name of directors	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Share award scheme**	**Total**	**Percentage of the Company's issued share capital**
Yum Chak Ming, Matthew	40,585,330	–	–	3,497,010	44,082,340	4.86
Sung Chee Keung	1,715,084	60,000	–	1,361,670	3,136,754	0.35
Yap, Alfred Donald	27,504	–	–	–	27,504	–

Save as disclosed above, as at 31 December 2018, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Restricted Share Award Scheme, the executive directors are eligible participants of the Restricted Share Award Scheme, details of which are set out in note 30 to the financial statements.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2018, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name		Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
C.H. Yam International Limited*	(Note)	Directly beneficially owned and through controlled corporation	290,834,379	32.03
C.H. Yam Holding Limited	(Note)	Through controlled corporation	199,263,190	21.95
Hung Tai Industrial Company Limited	(Note)	Directly beneficially owned	199,263,190	21.95
Rengo Co., Ltd.		Directly beneficiary owned	271,552,000	29.91

* C.H. Yam International Limited, established by the founder of the Company, was held by Mr. Yum Chak Ming, Matthew, Mr. Yam Hon Ming, Tommy and other immediate family members of the founder as at 31 December 2018. None of such interests renders C.H. Yam International Limited a controlled corporation (as defined in SFO) of any of Mr. Yum Chak Ming, Matthew, Mr. Yam Hon Ming, Tommy or any other members of the family.

Note: C.H. Yam International Limited owns Hung Tai Industrial Company Limited as to 100% through its wholly-owned subsidiary, C.H. Yam Holding Limited.

There is a duplication of interests of 199,263,190 shares in the Company among C.H. Yam International Limited, C.H. Yam Holding Limited and Hung Tai Industrial Company Limited.

Save as disclosed above, as at 31 December 2018, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and underlying shares" above, had registered an interest and short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SIGNIFICANT RELATED PARTY TRANSACTIONS

During the year, the Group entered into certain transactions with parties regarded as "related parties" under applicable accounting principles. The related party transactions conducted during the ordinary course of business, which cover transactions with related parties and constitute connected transactions as defined under the Listing Rules, are set out in notes 35 and 38 to the financial statements. Such transactions were complied with the applicable provisions under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the year and in the normal course of business, the Company and its subsidiaries (collectively the "Group") had various commercial transactions with Rengo Co., Ltd. ("Rengo"), its subsidiaries and its associates (together with Rengo, "Rengo Group"). Rengo is a substantial shareholder of the Company and these transactions constitute continuing connected transactions under the Listing Rules.

Details of these transactions are as follows:

On 1 December 2015, the Group and the Rengo Group renewed two framework agreements in relation to the continuing connected transactions, namely as follows:

(i) The Sale of Paper Products Framework Agreement pursuant to which the Group agreed to sell and the Rengo Group agreed to purchase paper products for the period from 1 January 2016 (the "Effective Date") to 31 December 2018.

(ii) The Purchase of Paper Products Framework Agreement pursuant to which the Group agreed to purchase and the Rengo Group agreed to sell paper products for the period from the Effective Date to 31 December 2018.

The annual caps of the agreements are as follows:

Sales of paper products by the Group to the Rengo Group:

Year ended 31 December 2016: HK$26.6 million
Year ended 31 December 2017: HK$27.1 million
Year ended 31 December 2018: HK$32.1 million

Purchase of paper products by the Group from the Rengo Group:

Year ended 31 December 2016: HK$20.0 million
Year ended 31 December 2017: HK$24.0 million
Year ended 31 December 2018: HK$28.0 million

During the year ended 31 December 2018, the actual amount of transactions in relation to the Sale of Paper Products Framework Agreement and the Purchase of Paper Products Framework Agreement were HK$11.9 million and HK$6.3 million, respectively.

In view of the expiry of the Sales of Paper Products Framework Agreement and the Purchase of Paper Products Framework Agreement, the Company and Rengo renewed the two framework agreements (the "Renewed Sale of Paper Products Framework Agreement" and the "Renewed Purchase of Paper Products Framework Agreement") on 7 December 2018 for a period of three years from 1 January 2019 to 31 December 2021. The terms of the Renewed Sale of Paper Products Framework Agreement and the Renewed Purchase of Paper Products Framework Agreement are similar to those of the Sale of Paper Products Framework Agreement and the Purchase of Paper Products Framework Agreement respectively. Further details of the renewed agreements were set out in the announcement of the Company dated 7 December 2018.

CONTINUING CONNECTED TRANSACTIONS (CONTINEUD)

The annual caps of the renewed agreements are as follows:

Sales of paper products by the Group to the Rengo Group:

Year ended 31 December 2019: HK$25 million
Year ended 31 December 2020: HK$28 million
Year ended 31 December 2021: HK$30 million

Purchase of paper products by the Group from the Rengo Group:

Year ended 31 December 2019: HK$20 million
Year ended 31 December 2020: HK$22 million
Year ended 31 December 2021: HK$25 million

As one or more of the applicable percentage ratios (other than the profits ratio) calculated with reference to the above annual caps exceed 0.1% but are less than 5%, the transactions under the renewed agreements are subject to reporting, announcement and annual review requirements but are exempt from circular and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The Company has engaged its auditor, KPMG, to conduct a review of the above continuing connected transactions for the year ended 31 December 2018 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter in respect of the continuing connected transactions disclosed in the paragraph above.

The Independent Non-executive Directors of the Company have reviewed the above continuing connected transactions for the year ended 31 December 2018 and the letter issued by the auditor and confirmed that the above continuing connected transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing the transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company endeavors to maintain stable dividend return on half-yearly basis and offer the utmost in rewarding the shareholders of the Company.

In deciding whether to propose or declare a dividend and in determining the dividend amount, the Board shall take into account projected cash-flow and retained profit requirement for future development of the Company, inter alia:

– financial performance and operating results;

– effective allocation of distributable retained earnings and reserves;

– maintaining regularity in pay-out frequency, amount and/or ratio; and

– other factors it may deem relevant at such time.

The dividend to be proposed or declared shall be determined at the sole discretion of the Board and is subject to the restrictions under the Articles of Association of the Company and all applicable laws and regulations.

The Company will review the Dividend Policy from time to time and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy. The Dividend Policy shall not constitute a legally binding commitment by the Company and there is no assurance that dividends will be paid in any particular amount in any given period.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Yum Chak Ming, Matthew
Executive Chairman

Hong Kong, 22 March 2019

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Hung Hing Printing Group Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Hung Hing Printing Group Limited and its subsidiaries (together "the Group") set out on pages 71 to 164, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 Hong Kong Companies Ordinance.

BASIS OF 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"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 for 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.

<table>
<tr><th colspan="2">Valuation of raw materials</th></tr>
<tr><td colspan="2">Refer to accounting policy note 2(o) and note 19 to the consolidated financial statements</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>At 31 December 2018, inventories comprised raw materials, work-in-progress and finished goods. Inventories are carried at the lower of cost and net realisable value ("NRV") in the consolidated financial statements.

At 31 December 2018, the Group's raw materials, which accounted for 71% of the total inventories and comprised principally of paper products, with gross amount of HK$385 million, against which a write-down of HK$12 million was recorded.

Management performs a regular review of raw materials held by the Group and assess if any write-down is required due to their deteriorating physical conditions, long ageing or the expectation that they would not be fully utilised based on expected future manufacturing or trading orders. Where there are such raw materials, a write-down may be required to reduce the carrying amount to NRV.

We identified the valuation of raw materials as a key audit matter because significant degree of management judgement required to assess the appropriate level of write-down for raw materials.</td><td>Our audit procedures to assess the valuation of the raw materials included the following:

• assessing, on a sample basis, whether items in the raw materials ageing report were classified within the appropriate ageing bracket by comparing individual details with goods receipt notes;

• inspecting the ageing report of raw materials and discussing with management the condition of long-aged and slow moving items as identified by management;

• comparing the quantities of raw materials at the end of the reporting period with the utilisation of raw materials over the past financial year and the forward order book subsequent to the year end, on a sample basis, to identify slow moving items;

• assessing the NRV of raw materials by comparing, on a sample basis, the selling price subsequent to the year end with the carrying value;

• attending the year end inventory count, observing the relevant controls implemented by management and identifying damaged inventories through inspection and enquiry of the warehouse staff;

• assessing whether the calculation of the write-down for raw materials was consistent with the Group's raw materials write-down policy by reviewing the calculation criteria and re-calculating the write-down for individual items on a sample basis; and

• assessing the historical accuracy of management's write-down for raw materials by examining the utilisation or release of write-down recorded at the end of the previous financial year or new write-down recorded in the current financial year in respect of raw materials held as at 31 December 2017.</td></tr>
</table>

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND OUR 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.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 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.

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 405 of the Hong Kong Companies Ordinance, 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.

– 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 Yeung Yuk Fan.

KPMG
Certified Public Accountants

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

22 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	**2018 $'000**	2017 $'000
Revenue	5	**3,276,800**	3,135,659
Cost of sales	6	**(2,907,463)**	(2,666,224)
Gross profit		**369,337**	469,435
Other revenue	5	**46,709**	25,535
Other net loss	5	**(42,563)**	(333)
Distribution costs		**(78,859)**	(74,379)
Administrative and selling expenses		**(367,754)**	(357,222)
Gain on disposal of a subsidiary company	36	**–**	1,143,809
Operating (loss)/profit		**(73,130)**	1,206,845
Finance costs	7	**(4,558)**	(6,192)
(Loss)/profit before income tax		**(77,688)**	1,200,653
Income tax	10	**5,544**	(145,104)
(Loss)/profit for the year		**(72,144)**	1,055,549
Attributable to:			
Equity shareholders of the Company		**(74,518)**	1,050,483
Non-controlling interests		**2,374**	5,066
(Loss)/profit for the year		**(72,144)**	1,055,549
(Loss)/earnings per share attributable to equity shareholders of the Company	11		
Basic		**(8.3) cents**	116.7 cents
Diluted		**(8.3) cents**	116.3 cents
		$'000	$'000
Dividends	29	**90,787**	290,517

The notes on pages 79 to 164 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	**2018** **$'000**	2017 (Note (i)) $'000
(Loss)/profit for the year		**(72,144)**	1,055,549
Other comprehensive income for the year (net of tax):			
Item that will not be reclassified to profit or loss			
– Change in fair value of equity investments at FVOCI (non-recycling)		**(1,250)**	–
Items that may be reclassified subsequently to profit or loss			
– Exchange differences on translation of financial statements of overseas subsidiaries		**(48,593)**	58,883
– Change in fair value of intangible assets	15	**1,000**	700
– Change in fair value of available-for-sale financial assets (recycling) (note (ii))		**–**	2,020
Other comprehensive income for the year		**(48,843)**	61,603
Total comprehensive income for the year		**(120,987)**	1,117,152
Attributable to:			
Equity shareholders of the Company		**(116,197)**	1,102,204
Non-controlling interests		**(4,790)**	14,948
Total comprehensive income for the year		**(120,987)**	1,117,152

Notes:

(i) The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 2(c)(i).

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to financial assets at FVOCI reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See note 2(c)(i).

The notes on pages 79 to 164 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 (Note) $'000
Non-current assets			
Property, plant and equipment	12	**1,142,918**	1,094,232
Land use rights	13	**75,519**	63,251
Properties under construction	14	**31,592**	5,699
Intangible assets	15	**11,912**	11,357
Deposits for acquisition of non-current assets		**63,407**	55,765
Interest in an associate	17	**11,309**	–
Financial investments	18	**112,330**	49,200
Deferred tax assets	27(b)(ii)	**23,002**	10,521
		1,471,989	1,290,025
Current assets			
Inventories	19	**527,968**	497,815
Trade and bills receivables	20	**873,228**	838,042
Prepayments, deposits and other receivables	21	**105,864**	486,493
Pledged time deposits	22	**97,244**	125,938
Time deposits with original maturity over three months		**5,885**	6,075
Cash and cash equivalents	23(a)	**983,957**	1,299,409
Income tax recoverable	27(a)	**108**	15
		2,594,254	3,253,787
Current liabilities			
Trade and bills payables	24	**213,537**	224,685
Other payable and accrued liabilities	25	**266,198**	220,467
Bank borrowings	26	**24,000**	76,752
Income tax payable	27(a)	**4,528**	19,087
		508,263	540,991
Net current assets		**2,085,991**	2,712,796
Total assets less current liabilities		**3,557,980**	4,002,821

	Note	2018 $'000	2017 (Note) $'000
Non-current liabilities			
Bank borrowings	26	**107,000**	131,000
Deferred tax liabilities	27(b)(ii)	**53,065**	56,799
		160,065	187,799
NET ASSETS		**3,397,915**	3,815,022
CAPITAL AND RESERVES			
Share capital	28	**1,652,854**	1,652,854
Reserves		**1,527,991**	1,731,499
Proposed dividends	29	**63,551**	272,360
Total equity attributable to equity shareholders of the Company		**3,244,396**	3,656,713
Non-controlling interests		**153,519**	158,309
TOTAL EQUITY		**3,397,915**	3,815,022

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 2(c)(i).

Approved and authorised for issue by the board of directors on 22 March 2019.

Yum Chak Ming, Matthew
Director

Sung Chee Keung
Director

The notes on pages 79 to 164 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 $'000	Other capital reserves (Note (i)) $'000	Intangible asset revaluation reserve $'000	Available-for-sale investment revaluation reserve $'000	Legal reserves $'000	Exchange fluctuation reserve $'000	Equity compensation reserve $'000	Retained earnings $'000	Proposed dividends $'000	Sub-total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2017		1,652,854	(4,831)	5,400	26,128	138,231	52,506	–	715,332	27,236	2,612,856	145,391	2,758,247
Changes in equity for 2017:													
Profit for the year		–	–	–	–	–	–	–	1,050,483	–	1,050,483	5,066	1,055,549
Other comprehensive income, net of tax		–	–	700	2,020	–	49,001	–	–	–	51,721	9,882	61,603
Total comprehensive income for the year		–	–	700	2,020	–	49,001	–	1,050,483	–	1,102,204	14,948	1,117,152
Dividend approved in respect of previous year	29(b)	–	–	–	–	–	–	–	–	(27,236)	(27,236)	–	(27,236)
Purchase of shares for Share Award Scheme	30	–	(19,462)	–	–	–	–	–	–	–	(19,462)	–	(19,462)
Equity compensation expenses	30	–	–	–	–	–	–	6,508	–	–	6,508	–	6,508
Allocation to legal reserves		–	–	–	–	4,916	–	–	(4,916)	–	–	–	–
Disposal of a subsidiary company		–	–	–	–	(6,559)	–	–	6,559	–	–	–	–
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(2,030)	(2,030)
Interim dividend	29(a)	–	–	–	–	–	–	–	(18,157)	–	(18,157)	–	(18,157)
Proposed special dividend	29(a)	–	–	–	–	–	–	–	(245,124)	245,124	–	–	–
Proposed final dividend	29(a)	–	–	–	–	–	–	–	(27,236)	27,236	–	–	–
Total transactions with equity shareholders, recognised directly in equity		–	(19,462)	–	–	(1,643)	–	6,508	(288,874)	245,124	(58,347)	(2,030)	(60,377)
Balance at 31 December 2017		1,652,854	(24,293)	6,100	28,148	136,588	101,507	6,508	1,476,941	272,360	3,656,713	158,309	3,815,022

		Attributable to equity shareholders of the Company												
	Note	Share capital $'000	Other capital reserves (Note(i)) $'000	Intangible asset revaluation reserve $'000	Financial assets at FVOCI reserve (recycling) (Note(ii)) $'000	Financial assets at FVOCI reserve (non-recycling) (Note(iii)) $'000	Legal reserves $'000	Exchange fluctuation reserve $'000	Equity compensation reserve $'000	Retained earnings $'000	Proposed dividends $'000	Sub-total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2018		1,652,854	(24,293)	6,100	28,148	-	136,588	101,507	6,508	1,476,941	272,360	3,656,713	158,309	3,815,022
Impact of initial application of HKFRS 9	2(c)(i)	-	-	-	(28,148)	27,910	-	-	-	(1,933)	-	(2,171)	-	(2,171)
Adjusted balance at 1 January 2018		1,652,854	(24,293)	6,100	-	27,910	136,588	101,507	6,508	1,475,008	272,360	3,654,542	158,309	3,812,851
Changes in equity for 2018:														
Loss for the year		-	-	-	-	-	-	-	-	(74,518)	-	(74,518)	2,374	(72,144)
Other comprehensive income, net of tax		-	-	1,000	-	(1,250)	-	(41,429)	-	-	-	(41,679)	(7,164)	(48,843)
Total comprehensive income for the year		-	-	1,000	-	(1,250)	-	(41,429)	-	(74,518)	-	(116,197)	(4,790)	(120,987)
Dividends approved in respect of previous year	29(b)	-	-	-	-	-	-	-	-	-	(272,360)	(272,360)	-	(272,360)
Purchase of shares for Share Award Scheme	30	-	(6,341)	-	-	-	-	-	-	-	-	(6,341)	-	(6,341)
Shares vested and allotted under Share Award scheme	30	-	5,108	-	-	-	-	-	(5,108)	-	-	-	-	-
Equity compensation expenses	30	-	-	-	-	-	-	-	11,988	-	-	11,988	-	11,988
Allocation to legal reserves		-	-	-	-	-	3,592	-	-	(3,592)	-	-	-	-
Interim dividend	29(a)	-	-	-	-	-	-	-	-	(27,236)	-	(27,236)	-	(27,236)
Proposed special dividend	29(a)	-	-	-	-	-	-	-	-	(36,315)	36,315	-	-	-
Proposed final dividend	29(a)	-	-	-	-	-	-	-	-	(27,236)	27,236	-	-	-
Total transactions with equity shareholders, recognised directly in equity		-	(1,233)	-	-	-	3,592	-	6,880	(94,379)	(208,809)	(293,949)	-	(293,949)
Balance at 31 December 2018		1,652,854	(25,526)	7,100	-	26,660	140,180	60,078	13,388	1,306,111	63,551	3,244,396	153,519	3,397,915

Notes:

(i) At 1 January 2017, other capital reserves represented own held shares reserve and capital reserve with debit balances of $4,017,000 and $814,000 respectively.

At 31 December 2017 and 1 January 2018, other capital reserves represented own held shares reserve and capital reserve with debit balances of $23,479,000 and $814,000 respectively.

At 31 December 2018, other capital reserves represented own held shares reserve and capital reserve with debit balances of $24,712,000 and $814,000 respectively.

(ii) Financial assets at FVOCI reserve (recycling) represents the available-for-sale investment revaluation reserve under HKAS 39 in prior years.

(iii) The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 2(c)(i).

The notes on pages 79 to 164 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 (Note) $'000
Operating activities			
Cash generated from operations	23(b)	**30,666**	177,690
Hong Kong profits tax (paid)/refunded		**(21)**	3,525
The People's Republic of China ("the PRC") income tax paid		**(21,875)**	(143,521)
Net cash generated from operating activities		**8,770**	37,694
Investing activities			
Settlement of derivative financial instruments		**(46,258)**	2,195
Interest received		**30,765**	10,441
Dividend received from financial investments	5	**439**	404
Consideration for acquisition of an associate		**(11,309)**	–
Consideration for acquisition of a subsidiary company, net of cash acquired	35	**(61,271)**	–
Payment for acquisition of financial investments	18	**(65,450)**	–
Purchases of property, plant and equipment	12	**(95,819)**	(62,176)
Purchases of software	15	**(827)**	(2,464)
Additions to properties under construction	14	**(26,740)**	(5,178)
Net proceeds from disposal of a subsidiary company	36	**390,339**	769,546
Deposits for acquisition of property, plant and equipment		**(66,780)**	(41,692)
Proceeds from disposal of property, plant and equipment		**2,973**	7,235
Decrease in pledged time deposits		**28,685**	10,457
Increase in time deposits with original maturity over three months		**(94)**	(89)
Net cash generated from investing activities		**78,653**	688,679

	Note	**2018** **$'000**	2017 (Note) $'000
Financing activities			
Payment for purchase of shares for Share Award Scheme	30	**(6,341)**	(19,462)
Proceeds from bank borrowings	23(c)	**24,088**	95,715
Repayments of bank borrowings	23(c)	**(100,840)**	(153,618)
Interest paid	23(c)	**(4,615)**	(6,248)
Dividends paid to non-controlling interests		**–**	(2,030)
Dividends paid to equity shareholders of the Company		**(299,596)**	(45,393)
Net cash used in financing activities		**(387,304)**	(131,036)
Net (decrease)/increase in cash and cash equivalents		**(299,881)**	595,337
Cash and cash equivalents at 1 January		**1,299,409**	684,831
Effect of foreign exchange rate changes		**(15,571)**	19,241
Cash and cash equivalents at 31 December	23(a)	**983,957**	1,299,409

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

The notes on pages 79 to 164 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

Hung Hing Printing Group Limited (the "Company") and its subsidiaries (together the "Group") are engaged in the following principal activities:

– Book and package printing;

– Consumer product packaging;

– Corrugated box; and

– Trading of paper.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Hung Hing Printing Centre, 17-19 Dai Hei Street, Tai Po Industrial Estate, New Territories, Hong Kong.

The Company has its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2 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"), 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. 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(c) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 and the Group's interest in an associate.

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:

– club debentures under intangible assets (see note 2(j)(iii));

– investments in debt and equity securities (see note 2(k)); and

– derivative financial instruments (see note 2(l)).

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.

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 significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) 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:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK (IFRIC) Interpretation 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 period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as HKFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(i) 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 on HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	$'000
Retained earnings	
Transferred from financial assets at FVOCI reserve (recycling) relating to financial assets now measured at FVPL	**238**
Recognition of additional expected credit losses on financial assets measured at amortised cost:	
– Trade and bills receivables	**(2,600)**
Related tax	**429**
Net decrease in retained earnings at 1 January 2018	**(1,933)**
Financial assets at FVOCI reserve (recycling)	
Transferred to retained earnings relating to financial assets now measured at FVPL	**(238)**
Transferred to financial assets at FVOCI reserve (non-recycling) relating to equity securities now measured at FVOCI	**(27,910)**
Net decrease in financial assets at FVOCI reserve (recycling) at 1 January 2018	**(28,148)**
Financial assets at FVOCI reserve (non-recycling)	
Transferred from financial assets at FVOCI reserve (recycling) relating to equity securities now measured at FVOCI and increase in financial assets at FVOCI reserve (non-recycling) at 1 January 2018	**27,910**

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, *Financial Instruments* (continued)

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

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's four classification categories: 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. The adoption of HKFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group's financial assets as at 1 January 2018. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, *Financial Instruments* (continued)

a. *Classification of financial assets and financial liabilities (continued)*

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 $'000	Reclassification $'000	Remeasurement $'000	HKFRS 9 carrying amount at 1 January 2018 $'000
Financial assets measured at FVOCI (non-recyclable)				
Unlisted equity investments (note (i))	–	33,474	–	33,474
Hong Kong listed equity investments (note (i))	–	14,938	–	14,938
	–	48,412	–	48,412
Financial assets carried at FVPL				
Club debentures (note (ii))	–	788	–	788
Financial assets carried at amortised cost				
Trade and bills receivables	838,042	–	(2,600)	835,442
Prepayments, deposits and other receivables	486,493	–	–	486,493
Pledged time deposits	125,938	–	–	125,938
Time deposits with original maturity over three months	6,075	–	–	6,075
Cash and cash equivalents	1,299,409	–	–	1,299,409
	2,755,957	–	(2,600)	2,753,357
Financial assets classified as available-for-sale under HKAS 39 (notes (i) & (ii))	49,200	(49,200)	–	–

Notes:

(i) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group (see note 18).

(ii) Under HKAS 39, club debentures were classified as available-for-sale financial assets. They are classified as FVPL under HKFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

(i) HKFRS 9, *Financial Instruments* (continued)

a. *Classification of financial assets and financial liabilities (continued)*

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 2(k), (l), (n)(i), (q) and (t).

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the "incurred loss" accounting model in HKAS 39. The ECL model applies to the Group's financial assets measured at amortised cost, but not to the Group's financial assets measured at fair value.

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.

For further details on the Group's accounting policy for accounting for credit losses, see notes 2(n)(i) and (ii).

For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount 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.

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to $2,600,000, which decreased retained earnings by $2,171,000 and decreased deferred tax liabilities by $429,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	$'000
Loss allowance at 31 December 2017 under HKAS 39	8,140
Additional credit loss recognised at 1 January 2018 on trade receivables	2,600
Loss allowance at 1 January 2018 under HKFRS 9	10,740

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

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

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

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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

Timing of revenue recognition

Previously under HKAS 18, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had been passed to the customers, whereas revenue arising from provision of services recognised over time.

Under HKFRS 15, revenue is recognised when a performance obligation is satisfied. This is when the customer obtains control of the promised goods or services in the contract, which may be at a single point in time or over time.

HKFRS 15 identifies the following three situations in which control of the promised goods or services is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of those situations, then the entity recognises revenue for the sale at a single point in time, being when control has been passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 did not have any significant impact on the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, 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.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

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 income statement and the consolidated statement of 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.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (continued)

(i) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interests recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (see note 2(j)(i)).

Intra-group transactions, balances, and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iv) Structured entity

A structured entity is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. The assets and liabilities of the structured entity, Law Debenture Trust (Asia) Limited (the "Trustee"), are included in the Group's consolidated statement of financial position and the shares held by the Trustee are presented as a deduction in equity as own held shares reserve.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (continued)

(v) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment losses (see note 2(n)). Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(e) Associates

An associate is an entity in which the Group or Company 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, unless it is classified as held for sale. 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 values 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 notes 2(j) and (n)(iii)). 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 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, 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 or joint 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 2(k)).

(f) 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.

(g) Foreign currency translation

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Foreign currency translation (continued)

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, 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 other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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.

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (see note 2(n)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation is provided to allocate their costs to their residual values over their estimated useful lives. The principal annual rates and bases used are as follows:

–	Buildings situated in Hong Kong	Over the shorter of the useful lives of the assets or lease terms of the associated land use rights
–	Buildings situated in the PRC	Over the shorter of the lease terms of the associated land use rights and useful lives which is 2.5%-10% on the straight-line basis
–	Plant and machinery	10%-20% on the reducing balance basis
–	Motor vehicles	30% on the reducing balance basis
–	Furniture, fixtures and equipment	20%-30% on the reducing balance basis

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment (continued)

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Properties under construction are stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the construction and comprises construction costs and applicable borrowing costs incurred during the construction period. On completion, the properties under construction are transferred to other categories within property, plant and equipment.

No depreciation is provided for properties under construction. The carrying amount of properties under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2(n)).

(i) Land use rights

Land use rights are up-front payments to acquire long-term interest in leasehold land, which are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land from the date when the respective rights were granted. Amortisation of land use rights is calculated on a straight-line basis over the period of the lease and is recognised in profit or loss.

(j) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of

(a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree; over

(b) the fair value of the identified net assets acquired.

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment (see note 2(n)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets (continued)

(ii) Computer software

Computer software that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(n)).

Amortisation of computer software with finite useful lives is 30% on the reducing balance basis and is charged to profit or loss.

(iii) Club debentures

Club debentures are initially recognised at cost, subsequently at revaluation. Changes arising on the revaluation of club debentures are generally dealt with in other comprehensive income and are accumulated separately in equity in the intangible asset revaluation reserve. Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Club debentures that have an indefinite useful life are not subject to amortisation and are tested annually for impairment (see note 2(n)).

(k) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and an associate, are as follows:

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 37(f). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments 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 2(x)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Other investments in debt and equity securities (continued)

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

Investments other than equity investments (continued)

– 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.

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 irrevocable 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 financial assets at FVOCI 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 in accordance with the policy set out in note 2(x)(iii).

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as current assets. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss did not include any interest earned or dividends on these investments as these were recognised in accordance with the policies set out in notes 2(x)(ii) and 2(x)(iii).

Dated debt securities that the Group and/or the Company had the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost less impairment losses.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Other investments in debt and equity securities (continued)

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

Investments in securities which did not fall into any of the above categories 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 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 could not otherwise be reliably measured were recognised in the statement of financial position at cost less impairment losses.

Interest income from debt securities calculated using the effective interest rate method and dividend income from equity securities were recognised in profit or loss in accordance with the policies set out in notes 2(x)(ii) and 2(x)(iii) respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities were also recognised in profit or loss.

When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to profit or loss. Investments were recognised/derecognised on the date the Group committed to purchase/sell the investments or they expire.

(l) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(m) Operating lease charges

Where the Group has the use of assets held 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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 the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, 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).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

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.

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 and bill receivables 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

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

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 assets are 30 to 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.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

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

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 2(x)(ii) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

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

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.

(B) Policy applicable prior to 1 January 2018

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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 was 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 these assets), where the effect of discounting was material. This 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 characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss had been recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss 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.

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 other comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

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

Impairment losses in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss has been 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 receivables and bills receivable, whose recovery was considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against trade receivables 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.

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Credit losses and impairment of assets (continued)

(ii) Credit losses from financial guarantees issued (continued)

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(n)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "trade and other payables" in respect of the guarantee.

(iii) Impairment of other non-current 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;

– intangible assets (including goodwill);

– interest in an associate; and

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, other intangible assets that are not yet available for use and other 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 CGU).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGU) and then, to reduce the carrying amount of the other assets in the unit (or group of CGU) 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

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Credit losses and impairment of assets (continued)

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, 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 note 2(n)).

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.

(o) Inventories

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

Cost is calculated using the weighted average cost formula 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.

(p) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(x)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(q)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) 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 2(n)(i)).

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(n)(ii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) 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. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(n)(i).

(u) 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.

The Group operates a defined contribution staff retirement scheme (the "Scheme") for certain of its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. When an employee leaves the Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Employee benefits (continued)

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

The Group also operates another defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Employees who joined the Group before 1 December 2000 have the option to join either one of the schemes. Employees who joined the Group on or after 1 December 2000 are only eligible to join the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The Group has no further obligations to pay once the contributions have been paid for these schemes.

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(ii) Share-based payments

The Group operates an equity-settled, share-based compensation plan (the "Share Award Scheme"), under which the entity receives services from employees as consideration for equity instruments (shares) of the Group. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

– including any market performance conditions;

– excluding the impact of any service and non-market performance vesting conditions; and

– excluding the impact of any non-vesting conditions.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Employee benefits (continued)

(ii) Share-based payments (continued)

Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Under the Share Award Scheme, directors and employees of the Group are entitled to the shares for which are held in trust by Law Debenture Trust (Asia) Limited (the "Trustee") for the benefit of the directors and employees. The Trustee may be instructed to buy shares from the market using the funds held by the Trustee. Details of outstanding shares can be referred to note 30.

(iii) 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.

(v) 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 other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in 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 and unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) 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 back or 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 and credits, 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 or credit 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 investments 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.

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.

The carrying amount of a deferred tax asset is reviewed at the 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax (continued)

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.

(w) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services.

Revenue is recognised when control over a product or service is transferred to the customer, 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) Sales of goods

Revenue is recognised when the customer takes possession of and accepts the products.

(ii) Interest income

Interest income is recognised using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) 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 2(n)(i)).

(iii) Dividend income

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

(iv) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(y) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(z) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders or the Board of Directors, where appropriate.

(ab) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) 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 (a).

(vii) A person identified in (a)(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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Estimated impairment of non-financial assets

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Intangible assets and property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

The Group reviews for impairment of the intangible assets and property, plant and equipment in accordance with the accounting policy stated in note 2(n)(iii).

The recoverable amount of the property, plant and equipment has been determined based on value-in-use calculation. These calculations require the use of estimates based on the Group's best estimate of the expected cash inflow generated from the use of property, plant and equipment throughout their useful lives.

Adjustments will be made if the actual performance differs from the original estimates.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Estimate of useful lives of property, plant and equipment

The Group has significant property, plant and equipment. The Group determines the estimated useful lives and residual values in order to ascertain the amount of depreciation charges for each reporting period. These estimates are based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives or residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Fair value estimation of debt and equity financial assets

The fair value of debt and equity financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumptions that are mainly based on market conditions existing at the issue date and the end of each reporting period. The valuation model requires the input of both observable and unobservable data. Changes in these unobservable and subjective input assumptions can materially affect the fair value estimate of debt and equity financial assets.

(e) Provision for inventories

The Group reviews the carrying value of its inventories to ensure that they are stated at the lower of cost and net realisable value. In assessing the net realisable value and making appropriate allowances, management identifies, using their judgement, inventories that are slow moving or obsolete, and considering their physical conditions, age, market conditions and market price for similar items.

(f) Provision of ECL for receivables

The Group uses provision matrix to calculate ECL for trade and other receivables. The provision matrix is based on the Group's historical credit loss experience (including credit history of its customers) and the current and forecast economic conditions. Management reassesses the provision at the end of each reporting period.

Significant judgement is exercised on the assessment of the collectability of trade receivables from each customer. In making the judgement, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customer payment trends including subsequent payments and customers' financial positions. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4 SEGMENT INFORMATION

The management committee (being the chief operating decision-maker) has determined the operating segments based on the reports reviewed by the management committee. The management committee, comprising the executive chairman and other senior management, that are used to make strategic decisions and assess performance.

Management committee has determined the operating segments based on these reports. The Group is organised into four business segments:

(a) Book and Package Printing segment;

(b) Consumer Product Packaging segment;

(c) Corrugated Box segment; and

(d) Paper Trading segment.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

Revenue from external customers are after elimination of inter-segment revenue. Inter-segment revenue is charged in accordance with terms determined and agreed mutually by relevant parties. Revenue is allocated based on the places/countries in which the customers are located.

Management assesses the performance of the operating segments based on a measure of gross profit and other revenue less distribution costs, administrative and selling expenses, and other net loss that are allocated to each segment. Other information provided is measured in a manner consistent with that in the financial statements.

Sales between segments are carried out at an arm's length basis.

Segment results do not include corporate finance costs and other corporate income and expenses.

4 SEGMENT INFORMATION (CONTINUED)

Business segments

(a) The following tables present revenue, results and certain information for the Group's business segments for the years ended 31 December 2018 and 2017.

	Book and package printing		Consumer product packaging		Corrugated box		Paper trading		Eliminations		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Segment revenue (recognised at a point in time)												
Revenue from external customers	**1,850,481**	1,837,419	**752,676**	687,882	**285,906**	185,813	**387,737**	424,545	**-**	–	**3,276,800**	3,135,659
Inter-segment revenue	**309**	445	**5,188**	6,488	**152,155**	151,522	**438,701**	448,922	**(596,353)**	(607,377)	**-**	–
Total	**1,850,790**	1,837,864	**757,864**	694,370	**438,061**	337,335	**826,438**	873,467	**(596,353)**	(607,377)	**3,276,800**	3,135,659
Segment results	**(73,713)**	30,477	**18,069**	28,898	**25,974**	26,016	**6,589**	17,304	**1,036**	1,164	**(22,045)**	103,859
Interest income and other income											**35,213**	13,706
Corporate and unallocated expenses											**(86,298)**	(54,529)
Gain on disposal of a subsidiary company											**-**	1,143,809
Operating (loss)/profit											**(73,130)**	1,206,845
Finance costs											**(4,558)**	(6,192)
(Loss)/profit before income tax											**(77,688)**	1,200,653
Income tax											**5,544**	(145,104)
(Loss)/profit for the year											**(72,144)**	1,055,549

4 SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

(b) Analysis of revenue by geographic locations of customers

The analysis of the Group's revenue from external customers attributed to the locations in which the customers are located during the year consists of the following:

	2018	2017
	$'000	$'000
Hong Kong	**876,512**	962,707
The PRC	**1,056,121**	878,839
Europe	**503,054**	553,091
United States of America	**715,900**	642,649
Other countries	**125,213**	98,373
	3,276,800	3,135,659

Revenues from the individual countries included in other countries are not material.

During the years ended 31 December 2018 and 2017, no single customer accounted for 10% or more of total revenue.

(c) Analysis of non-current assets by geographic locations

Non-current assets, other than interest in an associate, financial investments and deferred tax assets, by location:

	2018	2017
	$'000	$'000
Hong Kong	**116,014**	105,654
The PRC	**1,209,334**	1,124,650
	1,325,348	1,230,304

5 REVENUE, OTHER REVENUE AND OTHER NET LOSS

The Group's revenue, other revenue and other net loss consist of the following:

	2018 **$'000**	2017 $'000
Revenue from contracts with customers within HKFRS 15		
Sale of goods	**3,276,800**	3,135,659
Other revenue		
Bank interest income	**28,200**	13,366
Dividend income from financial investments	**439**	404
Government grants	**7,450**	5,577
Sales of scrap materials	**4,236**	4,681
Sundry income	**6,384**	1,507
	46,709	25,535
Other net loss		
Fair value loss on financial assets carried at FVPL	**(70)**	–
Gain on bargain purchase (note 35)	**7,013**	–
Loss on disposal of property, plant and equipment	**(1,706)**	(14,466)
Net foreign exchange (loss)/gain	**(2,789)**	12,001
Net realised (loss)/gain on derivative financial instruments not qualified as hedges	**(46,258)**	2,195
Write-off of intangible assets – software	**–**	(63)
Others	**1,247**	–
	(42,563)	(333)

6 EXPENSES BY NATURE

Expenses included in cost of sales, administrative and selling expenses and gain on disposal of a subsidiary company are analysed as follows:

	Note	**2018** **$'000**	2017 $'000
Depreciation#	12	**100,888**	96,996
Amortisation of land use rights	13	**2,696**	2,538
Amortisation of intangible assets#	15	**1,307**	1,297
Auditor's remuneration			
– Audit service		**2,502**	2,060
– Non-audit services (included tax matters, review and other reporting services)		**548**	1,605
Employee benefits expense#			
– excluding Directors' emoluments	8	**849,996**	805,622
Directors' emoluments	9(a)	**13,344**	17,034
Operating lease charges in respect of land and buildings		**21,207**	8,525
Impairment loss of trade receivables, net	37(c)	**602**	1,393
Cost of inventories#	19(b)	**2,907,463**	2,666,224

Cost of inventories include $745,226,000 (2017: $694,536,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 8 for each of these types of expenses.

7 FINANCE COSTS

	2018 **$'000**	2017 $'000
Interest on bank borrowings	**4,558**	6,192

8 EMPLOYEE BENEFITS EXPENSE – EXCLUDING DIRECTORS' EMOLUMENTS

	2018 **$'000**	2017 $'000
Salaries, allowances, bonus and benefits in kind	**787,467**	747,780
Pension costs – defined contribution plans	**54,591**	53,582
Share-based payments	**7,938**	4,260
	849,996	805,622

9 EMOLUMENTS FOR DIRECTORS AND MANAGEMENT

(a) 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:

	Fees $'000	Salaries, allowances and benefits in kind $'000	Employer's contribution to pension scheme $'000	Discretionary bonus $'000	Share-based payments $'000	Total $'000
Year ended 31 December 2018						
Executive directors:						
Yum Chak Ming, Matthew#	-	4,968	230	-	2,915	8,113
Sung Chee Keung	-	1,932	89	39	1,135	3,195
	-	6,900	319	39	4,050	11,308
Non-executive directors:						
Yam Hon Ming, Tommy	248	-	-	-	-	248
Hirofumi Hori	248	-	-	-	-	248
Sadatoshi Inoue	248	-	-	-	-	248
Yoshihisa Suzuki	248	300	-	-	-	548
	992	300	-	-	-	1,292
Independent non-executive directors:						
Yap, Alfred Donald	248	-	-	-	-	248
Luk Koon Hoo	248	-	-	-	-	248
Lo Chi Hong	248	-	-	-	-	248
	744	-	-	-	-	744
	1,736	7,200	319	39	4,050	13,344

9 EMOLUMENTS FOR DIRECTORS AND MANAGEMENT (CONTINUED)

(a) Directors' emoluments (continued)

	Fees $'000	Salaries, allowances and benefits in kind $'000	Employer's contribution to pension scheme $'000	Discretionary bonus $'000	Share-based payments $'000	Total $'000
Year ended 31 December 2017						
Executive directors:						
Yum Chak Ming, Matthew#	–	4,761	220	4,306	1,622	10,909
Sung Chee Keung	–	1,857	18	1,648	626	4,149
	–	6,618	238	5,954	2,248	15,058
Non-executive directors:						
Yam Hon Ming, Tommy	230	–	–	–	–	230
Katsuaki Tanaka[1]	46	66	–	–	–	112
Hirofumi Hori	230	–	–	–	–	230
Sadatoshi Inoue	230	–	–	–	–	230
Yoshihisa Suzuki[2]	184	300	–	–	–	484
	920	366	–	–	–	1,286
Independent non-executive directors:						
Yap, Alfred Donald	230	–	–	–	–	230
Luk Koon Hoo	230	–	–	–	–	230
Lo Chi Hong	230	–	–	–	–	230
	690	–	–	–	–	690
	1,610	6,984	238	5,954	2,248	17,034

The executive directors and members of senior management are eligible to receive discretionary bonus which is based on the performance of the Company and its subsidiaries, and individual performance. The accrual of discretionary bonus was based on the discretionary bonus program as reviewed and recommended by the Remuneration Committee, and approved by the Board of Directors.

During the year, no director received any emoluments from the Group as an inducement to join or leave the Group or as compensation for loss of office. No director waived or agreed to waive any emoluments.

Chairman
1 Resigned on 23 March 2017
2 Appointed on 23 March 2017

9 EMOLUMENTS FOR DIRECTORS AND MANAGEMENT (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included two (2017: two) executive directors. Their emoluments are reflected in the analysis presented above. The aggregate of the emoluments in respect of the remaining three (2017: three) individuals during the year are as follows:

	2018	2017
	$'000	$'000
Salaries, allowances and benefits in kind	**6,980**	6,501
Pension costs – defined contribution plans	**221**	121
Discretionary bonus	**–**	4,478
Share-based payments	**3,420**	1,764
	10,621	12,864

The number of highest paid non-director individuals whose emoluments fell within the following bands:

	Number of individuals	
	2018	2017
$3,000,001 – $3,500,000	**1**	–
$3,500,001 – $4,000,000	**2**	1
$4,000,001 – $4,500,000	**–**	1
$4,500,001 – $5,000,000	**–**	1
	3	3

(c) Senior management remuneration by band

Senior management remuneration by band included two (2017: two) executive directors:

	Number of individuals	
	2018	2017
$2,000,000 and below	**4**	2
$2,000,001 – $3,000,000	**3**	3
$3,000,001 – $4,000,000	**4**	3
Above $4,000,000	**1**	4
	12	12

10 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2018 $'000	2017 $'000
Current tax – Hong Kong Profits Tax		
– Provision for the year	**60**	–
– Over-provision in respect of prior years	**–**	(30)
	60	(30)
Current tax – PRC Income Tax		
– Provision for the year	**7,082**	140,643
– Under-provision in respect of prior years	**103**	50
	7,185	140,693
Deferred tax		
Origination and reversal of temporary differences (note 27(b))	**(12,789)**	4,441
	(5,544)	145,104

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% of the estimated assessable profits for the year. No provision for Hong Kong Profits Tax was made for 2017 as the tax losses brought forward from previous years of the Hong Kong subsidiaries exceeded their estimated assessable profits.

PRC Income Tax represents PRC Corporate Income Tax calculated at 25% (2017: 25%) and PRC withholding tax at the applicable rates. Pursuant to the income tax rules and regulations, provision for PRC withholding tax on dividend income is calculated based on 5% of the dividend income from subsidiaries in the PRC and provision for PRC withholding tax on disposal gain is calculated based on 10% of the consideration from disposal, net of the registered capital of the disposed subsidiary company.

10 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

(b) Reconciliation between tax (credit)/expense and (loss)/profit before income tax at applicable tax rates:

	2018 **$'000**	2017 $'000
(Loss)/profit before income tax	**(77,688)**	1,200,653
Notional tax on (loss)/profit before income tax, calculated at the rates applicable to profits in the countries concerned	**(14,792)**	17,152
Tax effect of non-deductible expenses	**7,706**	5,037
Tax effect of non-taxable income	**(7,336)**	(1,784)
Tax effect of unused tax losses not recognised during the year	**10,054**	1,289
Tax effect of tax losses recognised in prior years but reversed in current year	**417**	4,314
Tax effect of utilisation of previously unrecognised tax losses	**(1,371)**	–
Tax effect of recognition of other previously unrecognised temporary differences	**(914)**	(7)
Withholding tax on gain on disposal of a subsidiary company	**–**	117,365
Withholding tax on earnings remitted/expected to be remitted by PRC subsidiaries	**675**	1,508
Under provision in prior years, net	**103**	20
Others	**(86)**	210
Actual tax (credit)/expense	**(5,544)**	145,104

For the years ended 31 December 2018 and 2017, there was no tax charge relating to components of other comprehensive income.

11 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of $74,518,000 (2017: profit of $1,050,483,000) and the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company under the Share Award Scheme.

	2018	2017
(Loss)/profit attributable to equity shareholders of the Company ($'000)	**(74,518)**	1,050,483
Weighted average number of ordinary shares in issue ('000)	**907,865**	907,865
Weighted average number of own held shares for Share Award Scheme ('000)	**(14,364)**	(8,030)
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share ('000)	**893,501**	899,835
Basic (loss)/earnings per share (HK cents per share)	**(8.3)**	116.7

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the adjusted weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: shares repurchased for the purpose of Share Award Scheme. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the outstanding shares to be granted.

For the year ended 31 December 2018, the diluted and basic loss per share were the same as the ordinary shares repurchased for the Share Award Scheme are anti-dilutive to the loss per share.

	2017
Profit attributable to equity shareholders of the Company ($'000)	1,050,483
Weighted average number of ordinary shares in issue for calculation of basic earnings per share ('000)	899,835
Effect of dilutive potential ordinary shares in respect of own held shares for Share Award Scheme ('000)	3,266
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share ('000)	903,101
Diluted earnings per share (HK cents per share)	116.3

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings $'000	Plant and machinery $'000	Motor vehicles $'000	Furniture, fixtures and equipment $'000	Total $'000
Year ended 31 December 2017					
Opening net book value	410,706	664,525	7,718	30,566	1,113,515
Additions	2,124	49,221	4,269	6,562	62,176
Transfer from deposits for acquisition of non-current assets	–	25,403	185	759	26,347
Disposals/write-offs	(37)	(20,655)	(221)	(788)	(21,701)
Depreciation (note 6)	(19,500)	(69,219)	(2,736)	(5,541)	(96,996)
Disposal of a subsidiary company (note 36)	(13,852)	(6,059)	(148)	–	(20,059)
Exchange differences	12,564	17,930	101	355	30,950
Closing net book value	392,005	661,146	9,168	31,913	1,094,232
At 31 December 2017:					
Cost	675,444	1,814,140	33,551	135,347	2,658,482
Accumulated depreciation	(283,439)	(1,152,994)	(24,383)	(103,434)	(1,564,250)
Net book value	392,005	661,146	9,168	31,913	1,094,232

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings $'000	Plant and machinery $'000	Motor vehicles $'000	Furniture, fixtures and equipment $'000	Total $'000
Year ended 31 December 2018					
Opening net book value	**392,005**	**661,146**	**9,168**	**31,913**	**1,094,232**
Additions	**2,103**	**81,736**	**2,969**	**9,011**	**95,819**
Transfer from deposits for acquisition of non-current assets	**-**	**56,864**	**-**	**2,782**	**59,646**
Transfer from properties under construction (note 14)	**871**	**-**	**-**	**-**	**871**
Acquisition of a subsidiary company (note 35)	**9,827**	**10,375**	**362**	**684**	**21,248**
Disposals/write-offs	**-**	**(3,773)**	**(369)**	**(537)**	**(4,679)**
Depreciation (note 6)	**(19,290)**	**(72,470)**	**(2,983)**	**(6,145)**	**(100,888)**
Exchange differences	**(9,285)**	**(13,581)**	**(170)**	**(295)**	**(23,331)**
Closing net book value	**376,231**	**720,297**	**8,977**	**37,413**	**1,142,918**
At 31 December 2018:					
Cost	**673,311**	**1,913,885**	**34,559**	**138,745**	**2,760,500**
Accumulated depreciation	**(297,080)**	**(1,193,588)**	**(25,582)**	**(101,332)**	**(1,617,582)**
Net book value	**376,231**	**720,297**	**8,977**	**37,413**	**1,142,918**

The analysis of net book value of buildings is as follows:

	2018 $'000	2017 $'000
Buildings in Hong Kong, held on lease of:		
Between 10–50 years	**52,207**	54,644
Buildings in the PRC, held on lease of:		
Between 10–50 years	**324,024**	337,361
	376,231	392,005

13 LAND USE RIGHTS

The movements of land use rights are as follows:

	2018 $'000	2017 $'000
At 1 January	**63,251**	77,736
Amortisation (note 6)	**(2,696)**	(2,538)
Acquisition of a subsidiary company (note 35)	**17,898**	–
Disposal of a subsidiary company (note 36)	**–**	(14,115)
Exchange differences	**(2,934)**	2,168
At 31 December	**75,519**	63,251

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2018 $'000	2017 $'000
Land use rights in Hong Kong, held on lease of:		
Between 10–50 years	**14,706**	15,246
Land use rights in the PRC, held on lease of:		
Between 10–50 years	**60,813**	48,005
	75,519	63,251

14 PROPERTIES UNDER CONSTRUCTION

	2018 $'000	2017 $'000
At 1 January	**5,699**	517
Additions	**26,740**	5,178
Transfer from deposits for acquisition of non-current assets	**38**	–
Transfer to property, plant and equipment (note 12)	**(871)**	–
Exchange differences	**(14)**	4
At 31 December	**31,592**	5,699

The properties under construction are located in the PRC.

15 INTANGIBLE ASSETS

	Goodwill	Club debentures	Software	Total
	$'000	$'000	$'000	$'000
Year ended 31 December 2017				
Opening net book value	1,634	5,800	1,536	8,970
Additions	–	–	2,464	2,464
Transfer from deposits for acquisition of non-current assets	–	–	583	583
Amortisation (note 6)	–	–	(1,297)	(1,297)
Write-off	–	–	(63)	(63)
Fair value changes	–	700	–	700
Closing net book value	1,634	6,500	3,223	11,357
At 31 December 2017:				
At Cost	1,634	–	9,246	10,880
At Revaluation	–	6,500	–	6,500
Accumulated amortisation	–	–	(6,023)	(6,023)
Net book value	1,634	6,500	3,223	11,357

15 INTANGIBLE ASSETS (CONTINUED)

	Goodwill	Club debentures	Software	Total
	$'000	$'000	$'000	$'000
Year ended 31 December 2018				
Opening net book value	**1,634**	**6,500**	**3,223**	**11,357**
Additions	**–**	**–**	**827**	**827**
Transfer from deposits for acquisition of non-current assets	**–**	**–**	**39**	**39**
Amortisation (note 6)	**–**	**–**	**(1,307)**	**(1,307)**
Fair value changes	**–**	**1,000**	**–**	**1,000**
Exchange differences	**–**	**–**	**(4)**	**(4)**
Closing net book value	**1,634**	**7,500**	**2,778**	**11,912**
At 31 December 2018:				
At cost	**1,634**	**–**	**10,110**	**11,744**
At revaluation	**–**	**7,500**	**–**	**7,500**
Accumulated amortisation	**–**	**–**	**(7,332)**	**(7,332)**
Net book value	**1,634**	**7,500**	**2,778**	**11,912**

Goodwill is attributable to the consumer product packaging segment.

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES

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

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued and fully paid up shares/ registered capital	Proportion of ordinary shares directly held by Company	Proportion of ordinary shares held by the Group	Proportion of ordinary shares held by non-controlling interests
Hung Hing Off-Set Printing Company Limited	Hong Kong/Limited liability company	Production and trading of paper products and carton boxes/ Hong Kong	100 ordinary shares	100%	100%	–
Sun Hing Paper Company Limited	Hong Kong/Limited liability company	Paper trading/Hong Kong	100 ordinary shares	100%	100%	–
Hung Hing Printing (China) Company Limited §§	The PRC/Limited liability company	Production and colour printing of paper products/The PRC	$566,000,000	–	100%	–
Tai Hing Paper Products Company, Limited	Hong Kong/Limited liability company	Trading of corrugated cartons boxes/Hong Kong	100 ordinary shares	100%	100%	–
Beluga Limited	Hong Kong/Limited liability company	Design and production of "print + digital" products/Hong Kong	2 ordinary shares	100%	100%	–
Toppwork Limited	Hong Kong/Limited liability company	Professional services/ Hong Kong	10,000 ordinary shares	100%	100%	–
Zhongshan Hung Hing Printing & Packaging Company Limited §	The PRC/Limited liability company	Printing and manufacturing of paper cartons/The PRC	USD20,000,000	–	71%	29%
Zhongshan Hung Hing Off-Set Printing Company Limited §	The PRC/Limited liability company	Production and colour printing of paper products/The PRC	USD5,000,000	–	71%	29%
Hung Hing International Limited	British Virgin Islands/Limited liability company	Investment holding/ Hong Kong	100 ordinary shares	100%	100%	–
South Gain Enterprises Limited	Hong Kong/Limited liability company	Selling and purchasing agent/ Hong Kong	1,700,000 ordinary shares	–	71%	29%
Po Hing Packaging (Shenzhen) Company Limited §§	The PRC/Limited liability company	Printing and manufacturing of paper cartons/The PRC	USD11,200,000	–	100%	–
Zhongshan South Gain Paper Products Company Limited §§	The PRC/Limited liability company	Printing and manufacturing of paper cartons/The PRC	USD15,000,000	–	71%	29%
Hung Hing Packaging (Wuxi) Company Limited §§	The PRC/Limited liability company	Production and colour printing of paper products/The PRC	USD31,050,000	100%	100%	–
Hung Hing Printing (Heshan) Company Limited §§	The PRC/Limited liability company	Production and colour printing of paper products/The PRC	$290,000,000	–	100%	–
Jun Hing Company Limited §§	The PRC/Limited liability company	Paper trading/The PRC	$19,200,000	–	100%	–

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued and fully paid up shares/ registered capital	Proportion of ordinary shares directly held by Company	Proportion of ordinary shares held by the Group	Proportion of ordinary shares held by non-controlling interests
Jun Hing Paper (Shenzhen) Company Limited §§	The PRC/Limited liability company	Paper trading/The PRC	RMB20,000,000	–	100%	–
Guangdong Rengo Packaging Company Limited §§	The PRC/Limited liability company	Printing and manufacturing of paper cartons/The PRC	USD16,880,000	–	100%	–

§ Sino-foreign equity joint venture

§§ Wholly foreign-owned enterprise

\# During the year ended 31 December 2017, the Company has disposed 100% equity interest of Sun Hing Paper (Shenzhen) Company Limited, as set out in note 36.

(b) The following table lists out the information relating to South Gain Enterprises Limited Sub-group and Zhongshan Hung Hing Printing & Packaging Company Limited, the subsidiaries of the Group which have material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination except for the elimination within South Gain Enterprises Limited Sub-group.

	South Gain Enterprises Limited Sub-group		**Zhongshan Hung Hing Printing & Packaging Company Limited**	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
NCI percentage	**29%**	29%	**29%**	29%
Current assets	**223,156**	204,666	**141,503**	160,127
Non-current assets	**121,041**	126,257	**210,491**	187,724
Current liabilities	**(101,762)**	(82,192)	**(105,194)**	(95,204)
Non-current liabilities	**(8,990)**	(10,572)	**(9,493)**	(9,990)
Net assets	**233,445**	238,159	**237,307**	242,657
Carrying amount of NCI	**67,699**	69,066	**68,819**	70,371
Revenue	**314,139**	308,142	**233,188**	210,507
Profit for the year	**1,887**	7,976	**6,109**	9,297
Total comprehensive income	**(4,714)**	17,761	**(5,350)**	24,998
Profit allocated to NCI	**547**	2,313	**1,772**	2,696
Dividend paid to NCI	**–**	2,030	**–**	–
Cash flows from operating activities	**(2,435)**	(25,862)	**44,040**	18,702
Cash flows from investing activities	**3,919**	(6,580)	**(40,458)**	(7,762)
Cash flows from financing activities	**6,276**	22,004	**(5,989)**	(144)

17 INTEREST IN AN ASSOCIATE

	2018 **$'000**
Share of net assets of an associate	**1,614**
Goodwill	**9,695**
	11,309

In December 2018, the Group invested in 10% of the equity interest in Guangzhou Honghai Enterprise Co., Limited ("Honghai"), which was established in the PRC, at a consideration of RMB10,000,000 (equivalent to $11,309,000). The Group has 20% voting right in the board of directors of Honghai. Accordingly, the directors consider the Group has significant influence over Honghai and account for its investment as associate. Honghai's principal activity is providing innovative printing services.

The associate is unlisted and its quoted market price is not available. The associate is accounted for using equity method in the consolidated financial statements.

18 FINANCIAL INVESTMENTS

	2018 **$'000**	2017 (Note) $'000
Financial assets measured at FVOCI		
Unlisted equity investments	**97,924**	–
Hong Kong listed equity investments	**13,688**	–
	111,612	–
Financial assets carried at FVPL		
Club debentures	**718**	–
Available-for-sale financial assets (Note)		
Unlisted equity investments, at fair value	**–**	33,394
Unlisted equity investments, at cost	**–**	80
Club debentures, at fair value	**–**	788
Hong Kong listed equity investments, at fair value	**–**	14,938
	–	49,200
	112,330	49,200

Note: Available-for-sale financial assets were reclassified to financial assets measured at FVPL and equity securities designated at FVOCI (non-recycling) upon the initial application of HKFRS 9 at 1 January 2018 (see note 2(c)(i)).

18 FINANCIAL INVESTMENTS (CONTINUED)

During the year ended 31 December 2018, the Group invested in unlisted equity investments at a total consideration of $65,450,000.

The fair values of listed equity investments are based on quoted market prices at the end of the reporting period.

The fair values of unlisted equity investments are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted security. The significant assumptions and unobservable inputs utilised in valuation were as follows:

	2018	2017
– Discount rate	**13.5%**	14.7%
– Terminal growth rate	**1.1%**	3.5%

19 INVENTORIES

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

	2018 **$'000**	2017 $'000
Raw materials*	**385,429**	375,226
Work in progress	**67,532**	60,975
Finished goods	**87,999**	76,922
	540,960	513,123
Less: Write-down of inventories	**(12,992)**	(15,308)
	527,968	497,815

* At 31 December 2018, $75,030,000 (2017: $53,088,000) of raw materials were designated for paper trading business.

19 INVENTORIES (CONTINUED)

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

	2018 **$'000**	2017 $'000
Carrying amount of inventories sold	**2,909,847**	2,668,017
Reversal of write-down of inventories, net	**(2,384)**	(1,793)
	2,907,463	2,666,224

The reversal of write-down of inventories made in both years arose due to an increase in the estimated net realisable value of raw materials as a result of increase in the market price of paper.

20 TRADE AND BILLS RECEIVABLES

	2018 **$'000**	2017 $'000
Trade receivable	**876,392**	840,557
Less: Loss allowance (note 37(c))	**(9,292)**	(8,140)
	867,100	832,417
Trade receivable due from related parties	**577**	1,020
Total trade receivable, net	**867,677**	833,437
Bills receivable	**5,551**	4,605
	873,228	838,042

All of the trade and bills receivables are expected to be recovered within one year.

20 TRADE AND BILLS RECEIVABLES (CONTINUED)

Ageing analysis

The ageing analysis of total trade receivable at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 $'000	2017 $'000
1-30 days	**345,791**	305,826
31-60 days	**187,504**	204,956
61-90 days	**124,445**	94,420
Over 90 days	**209,937**	228,235
	867,677	833,437

Trade receivable are normally due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 37(c).

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

At 31 December 2017, a receivable balance of $390,339,000 from an escrow account for the disposal of Sun Hing Paper (Shenzhen) Company Limited was included in prepayments, deposits and other receivables (see note 36). The balance was fully settled during the year ended 31 December 2018.

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

22 PLEDGED TIME DEPOSITS

At 31 December 2018, time deposits of $97,244,000 (2017: $125,938,000) were pledged as collaterals for the issuance of bills payable (see note 24).

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018 $'000	2017 $'000
Cash at banks and on hand	**260,297**	314,657
Time deposits with original maturity less than three months	**723,660**	984,752
	983,957	1,299,409

23 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of (loss)/profit before income tax to cash generated from operations:

	Note	**2018 $'000**	2017 $'000
(Loss)/profit before income tax		**(77,688)**	1,200,653
Adjustments for:			
Finance costs	7	**4,558**	6,192
Fair value loss on financial assets carried at FVPL	5	**70**	–
Gain on disposal of a subsidiary company	36	**–**	(1,143,809)
Bank interest income	5	**(28,200)**	(13,366)
Dividend income from financial investments	5	**(439)**	(404)
Gain on bargain purchase	5	**(7,013)**	–
Restricted share award scheme expenses	30	**11,988**	6,508
Net realised loss/(gain) on derivative financial instruments not qualified as hedges	5	**46,258**	(2,195)
Depreciation	6	**100,888**	96,996
Amortisation of land use rights	6	**2,696**	2,538
Amortisation of intangible assets	6	**1,307**	1,297
Impairment loss of trade receivables, net	6	**602**	1,393
Reversal of write-down of inventories, net	19	**(2,384)**	(1,793)
Loss on disposal of property, plant and equipment	5	**1,706**	14,466
Write-off of intangible assets – software	5	**–**	63
		54,349	168,539
(Increase)/decrease in inventories		**(12,801)**	10,173
Increase in trade and bills receivables		**(13,017)**	(52,115)
(Increase)/decrease in prepayments, deposits and other receivables		**(12,061)**	14,781
(Decrease)/increase in trade and bills payables		**(18,841)**	19,542
Increase in other payable and accrued liabilities		**33,037**	16,770
Cash generated from operations		**30,666**	177,690

23 CASH AND CASH EQUIVALENTS (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 statement of cash flows as cash flows from financing activities.

	Bank borrowings (Note)	
	2018	2017
	$'000	$'000
At 1 January	**207,752**	265,655
Changes from financing cash flows:		
Proceeds from bank borrowings	**24,088**	95,715
Repayments of bank borrowings	**(100,840)**	(153,618)
Interest paid	**(4,615)**	(6,248)
Total changes from financing cash flows	**(81,367)**	(64,151)
Other changes:		
Interest expenses (note 7)	**4,558**	6,192
Decrease in interest payable	**57**	56
Total other changes	**4,615**	6,248
At 31 December	**131,000**	207,752

Note: Bank borrowings consist of bank loans as disclosed in note 26.

24 TRADE AND BILLS PAYABLES

	2018 $'000	2017 $'000
Trade payable	**164,988**	183,830
Trade payable due to related parties	**301**	–
Total trade payable	**165,289**	183,830
Bills payable	**48,248**	40,855
	213,537	224,685

At 31 December 2018, the bills payable of $27,777,000 (2017: $36,011,000) are secured by the pledged time deposits of $97,244,000 (2017: $125,938,000).

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

The aging analysis of trade payable at the end of the reporting period, based on the invoice date, is as follows:

	2018 $'000	2017 $'000
1-30 days	**117,172**	143,410
31-60 days	**31,559**	27,874
61-90 days	**5,487**	6,301
Over 90 days	**11,071**	6,245
	165,289	183,830

25 OTHER PAYABLE AND ACCRUED LIABILITIES

At 31 December 2018, billings in advance of performance in sales, representing contract liabilities, amounted to $47,898,000 (2017: $14,302,000). When the Group receives a deposit before the delivery of products in its sales activity, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the sales exceeds the amount of the deposit.

Contract liabilities of $14,302,000 at the beginning of the year is recognised as revenue during the year and contract liabilities of $47,898,000 was recognised at 31 December 2018 as a result of billing in advance of goods delivery.

Except for the amounts of $2,037,000 (2017: $1,930,000), all of the other payable and accrued liabilities are expected to be settled or recognised as income within one year or are repayable on demand.

26 BANK BORROWINGS

	Effective interest rate 2018	2017	Maturity 2018	2017	2018 $'000	2017 $'000
Current						
Bank loans – guaranteed	**3%**	2%-3%	**2019**	2018	**24,000**	76,752
Non-current						
Bank loans – guaranteed	**3%**	3%	**2020-2021**	2019-2021	**107,000**	131,000
Total bank loans					**131,000**	207,752

All of the above bank loans are secured by the corporate guarantees issued by the Company.

The Group has bank loans and trade facilities of $722,286,000 (2017: $745,077,000), of which $131,000,000 (2017: $207,752,000) had been utilised as at the end of the reporting period.

The bank loans are subject to certain covenants and the Group has not breached any borrowing limits or covenants on any of its banking facilities. Further details of the Group's management of liquidity risk are set out in note 37(e).

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018 $'000	2017 $'000
Provision for Hong Kong profits tax for the year	**60**	–
Provisional profits tax paid	**(21)**	(15)
	39	(15)
Balance of profits tax recoverable relating to prior years	**(15)**	–
Taxation outside Hong Kong – PRC corporate income tax payable	**4,396**	19,087
	4,420	19,072

	2018 $'000	2017 $'000
Income tax recoverable	**(108)**	(15)
Income tax payable	**4,528**	19,087
	4,420	19,072

27 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:

	Tax losses	Differences between depreciation allowances and related depreciation	Credit loss allowance of trade receivables	Withholding tax	Other temporary differences	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Deferred tax arising from:						
At 1 January 2017	(23,176)	66,886	(1,430)	8,664	(11,575)	39,369
Charged/(credited) to profit or loss (note 10(a))	7,245	(2,173)	(65)	52	(618)	4,441
Disposal of a subsidiary company (note 36)	–	–	–	–	42	42
Exchange differences	(388)	2,533	(85)	609	(243)	2,426
At 31 December 2017	(16,319)	67,246	(1,580)	9,325	(12,394)	46,278
Impact of initial application of HKFRS 9 (note 2(c)(i))	–	–	(429)	–	–	(429)
At 1 January 2018	(16,319)	67,246	(2,009)	9,325	(12,394)	45,849
Charged/(credited) to profit or loss (note 10(a))	(10,507)	(1,026)	4	210	(1,470)	(12,789)
Acquisition of a subsidiary company (note 35)	(1,105)	1,391	–	–	(1,608)	(1,322)
Exchange differences	264	(1,851)	56	(437)	293	(1,675)
At 31 December 2018	(27,667)	65,760	(1,949)	9,098	(15,179)	30,063

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised: (continued)

(ii) Reconciliation to the consolidated statement of financial position

	2018 **$'000**	2017 $'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(23,002)**	(10,521)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**53,065**	56,799
	30,063	46,278

(c) Deferred tax assets and liabilities not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses, whose expiry dates are:

	2018 **$'000**	2017 $'000
Within 1 year	**2,857**	11,113
More than 1 year but within 5 years	**29,844**	12,535
Do not expire under current tax legislation	**93,624**	60,190
	126,325	83,838

The directors are of opinion that it is not probable that future taxable profits against which the losses above can be utilised will be available in the relevant tax jurisdiction and entity.

Deferred tax liabilities of $6,644,000 (2017: $24,552,000) have not been recognised at 31 December 2018 for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries established in the PRC.

28 SHARE CAPITAL

	2018 No. of shares '000	**2018** $'000	2017 No. of shares '000	2017 $'000
At 1 January and 31 December	**907,865**	**1,652,854**	907,865	1,652,854

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The Company's issued and fully paid shares as at 31 December 2018 included 14,408,954 shares (2017: 13,932,944 shares) held in trust by the trustee under Restricted Share Award Scheme, details of which are set out in note 30.

During the years ended 31 December 2018 and 2017, neither the Company nor any of its subsidiaries purchased any of the Company's shares, except that the trustee of the Restricted Share Award Scheme, pursuant to the terms of the rules and trust deed of the Restricted Share Award Scheme, purchased on the Stock Exchange a total of 3,510,000 shares (2017: 12,300,000 shares) of the Company (note 30).

29 DIVIDENDS

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

	2018 $'000	2017 $'000
Interim dividend of HK3 cents (2017: HK2 cents) per ordinary share	**27,236**	18,157
Proposed special dividend of HK4 cents (2017: HK27 cents) per ordinary share	**36,315**	245,124
Proposed final dividend of HK3 cents (2017: HK3 cents) per ordinary share	**27,236**	27,236
	90,787	290,517

The directors recommend the payment of a special dividend of HK4 cents per ordinary share and a final dividend of HK3 cents per ordinary share. Such dividends are to be approved by the shareholders at the forthcoming Annual General Meeting of the Company to be held on 23 May 2019. These consolidated financial statements do not reflect this as dividends payable but account for it as proposed dividends in reserves (note 31).

29 DIVIDENDS (CONTINUED)

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

	2018 $'000	2017 $'000
Special dividend in respect of the previous financial year, approved and paid during the year, of HK27 cents (2017: nil) per ordinary share	**245,124**	–
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3 cents (2017: HK3 cents) per ordinary share	**27,236**	27,236
	272,360	27,236

30 RESTRICTED SHARE AWARD SCHEME

The Restricted Share Award Scheme (the "Scheme") was adopted by the Company on 21 December 2009 as an incentive to attract, motivate and retain employees of the Group. It will expire on 30 June 2021.

Eligible participants of the Scheme are senior management and directors of the Group.

The awarded shares are the existing shares, which are purchased on the Stock Exchange by the independent trustee, Law Debenture Trust (Asia) Limited (the "Trustee"), with funds provided by the Company. The maximum number of shares that can be purchased by the trustee under the Scheme is limited to 2% of the shares in issue of the Company as at 1 July 2018.

Under the rules of the Scheme, share awards will be granted to the participants of the Scheme when certain performance target is met and on or before 30 June of each year.

Upon certain vesting conditions are fulfilled, the share awards granted to the participants will be vested in three equal tranches provided that the relevant awardee remained employed by the Group or retired on reaching normal retirement age.

For awardees who cease employment with the Group before vesting, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Scheme.

The fair value of the shares was determined based on the closing market price of the Company's shares that are publicly traded on the Stock Exchange on the grant date.

(Expressed in Hong Kong dollars unless otherwise indicated)

30 RESTRICTED SHARE AWARD SCHEME (CONTINUED)

During the year ended 31 December 2018, a total of 8,316,060 shares (2017: 9,101,970 shares) at a fair value of $1.80 per share (2017: $1.56 per share) were granted to the participants. Share based payments of $11,988,000 (2017: $6,508,000) has been recognised in the consolidated income statement as employee benefit expenses (notes 8 and 9). In 2018, a total of 3,033,990 shares were vested and their average purchasing fair value was $5,108,000. None of the shares granted was forfeited up to 31 December 2018.

Movement in the number of shares awarded and their related average fair value is as follows:

	2018		2017	
	Average fair value per share $	**Number of shares awarded**	Average fair value per share $	Number of shares awarded
Beginning balance		**9,101,970**		–
Granted	**1.80**	**8,316,060**	1.56	9,101,970
Vested	**1.68**	**(3,033,990)**		–
Ending balance		**14,384,040**		9,101,970

All the shares held by Trustee for the purpose of the Scheme are listed below:

	Number of shares	
	2018	2017
Beginning balance	**13,932,944**	1,632,944
Purchase of shares	**3,510,000**	12,300,000
Vesting of shares	**(3,033,990)**	–
Ending balance	**14,408,954**	13,932,944

During the year ended 31 December 2018, the total consideration paid for the purchase of 3,510,000 shares (2017: 12,300,000 shares) was $6,341,000 (2017: $19,462,000).

31 RESERVES

(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 changes in the Company's individual components of equity between the beginning and the end of the years are set out below:

	Share capital $'000	Other capital reserves $'000	Available-for-sale investment revaluation reserve $'000	Equity compensation reserves $'000	Retained earnings $'000	Proposed dividend $'000	Total $'000
At 1 January 2017	1,652,854	(4,017)	8,893	–	423,956	27,236	2,108,922
Changes for the year							
Profit for the year	–	–	–	–	1,019,484	–	1,019,484
Other comprehensive income	–	–	52	–	–	–	52
Total comprehensive income	–	–	52	–	1,019,484	–	1,019,536
Dividends approved in respect of the previous year (note 29(b))	–	–	–	–	–	(27,236)	(27,236)
Purchase of shares for Share Award Scheme (note 30)	–	(19,462)	–	–	–	–	(19,462)
Equity compensation expenses (note 30)	–	–	–	6,508	–	–	6,508
Interim dividend (note 29(a))	–	–	–	–	(18,157)	–	(18,157)
Proposed special dividend (note 29(a))	–	–	–	–	(245,124)	245,124	–
Proposed final dividend (note 29(a))	–	–	–	–	(27,236)	27,236	–
At 31 December 2017	1,652,854	(23,479)	8,945	6,508	1,152,923	272,360	3,070,111

31 RESERVES (CONTINUED)

(a) Movements in components of equity (continued)

	Share capital $'000	Other capital reserves $'000	Financial assets at FVOCI reserve (recycling)* $'000	Financial assets at FVOCI reserve (non-recycling) $'000	Equity compensation reserves $'000	Retained earnings $'000	Proposed dividend $'000	Total $'000
At 1 January 2018	**1,652,854**	**(23,479)**	**8,945**	**-**	**6,508**	**1,152,923**	**272,360**	**3,070,111**
Impact of initial application of HKFRS 9	**-**	**-**	**(8,945)**	**8,707**	**-**	**238**	**-**	**-**
Adjusted balance at 1 January 2018	**1,652,854**	**(23,479)**	**-**	**8,707**	**6,508**	**1,153,161**	**272,360**	**3,070,111**
Changes for the year								
Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(24,648)**	**-**	**(24,648)**
Dividends approved in respect of the previous year (note 29(b))	**-**	**-**	**-**	**-**	**-**	**-**	**(272,360)**	**(272,360)**
Purchase of shares for Share Award Scheme (note 30)	**-**	**(6,341)**	**-**	**-**	**-**	**-**	**-**	**(6,341)**
Shares vested and allotted under Share Award Scheme (note 30)	**-**	**5,108**	**-**	**-**	**(5,108)**	**-**	**-**	**-**
Equity compensation expenses (note 30)	**-**	**-**	**-**	**-**	**11,988**	**-**	**-**	**11,988**
Interim dividend (note 29(a))	**-**	**-**	**-**	**-**	**-**	**(27,236)**	**-**	**(27,236)**
Proposed special dividend (note 29(a))	**-**	**-**	**-**	**-**	**-**	**(36,315)**	**36,315**	**-**
Proposed final dividend (note 29(a))	**-**	**-**	**-**	**-**	**-**	**(27,236)**	**27,236**	**-**
At 31 December 2018	**1,652,854**	**(24,712)**	**-**	**8,707**	**13,388**	**1,037,726**	**63,551**	**2,751,514**

* Upon the application of HKFRS 9, the financial assets at FVOCI reserve (recycling) of equity investments was reclassified to financial assets at FVOCI reserve (non-cycling) and the financial assets at FVOCI reserve (recycling) of debt investment was reclassified to retained earnings. Financial assets at FVOCI reserve (recycling) represents the available-for-sale investment reserve under HKAS 39 in prior years.

31 RESERVES (CONTINUED)

(b) Nature and purpose of reserves

(i) Legal reserves

Subsidiaries of the Group in the PRC, which are wholly foreign-owned enterprises, follow the accounting principles and relevant financial regulations of the PRC applicable to wholly foreign-owned enterprises ("PRC GAAP – WFOE"), in the preparation of its accounting records and financial statements. Pursuant to the accounting regulations for business enterprises, the subsidiaries are required to appropriate 10% of the profit arrived at in accordance with PRC GAAP – WFOE for each year to a statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to equity owners. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

(ii) Intangible asset revaluation reserve

The intangible asset revaluation reserve has been set up and is dealt with in accordance with the accounting policies in notes 2(j).

(iii) Financial assets at FVOCI reserve (non-recycling)

The financial assets at FVOCI reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 2(k)).

Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with HKAS 39. This amount has been reclassified to financial assets at FVOCI reserve (non-recycling) upon the initial adoption of HKFRS 9 at 1 January 2018 (see note 2(c)(i)).

(iv) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(g).

32 CAPITAL RISK MANAGEMENT

The Group regards its shareholders' equity as capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the net debt gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (i.e. current and non-current bank borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents, time deposits with original maturity over three months and pledged time deposits.

During the year, the Group's strategy was to maintain the net debt gearing ratio below 30%. As at 31 December 2018 and 2017, the Group had net cash position as follows:

	2018	2017
	$'000	$'000
Cash and cash equivalents, time deposits with original maturity over three months and pledged time deposits	**1,087,086**	1,431,422
Total bank borrowings (note 26)	**(131,000)**	(207,752)
	956,086	1,223,670

As the Group had a net cash position, the net debt gearing ratio as at 31 December 2018 was nil (2017: nil).

33 CONTINGENT LIABILITIES

The Group issued guarantees to a former related party for its banking facilities and $26,250,000 (2017: $27,515,000) of the banking facilities was utilised as at 31 December 2018.

At the end of the reporting period, the directors do not consider it is probable that a claim will be made against the Group under any of these guarantees.

34 COMMITMENTS

(a) Operating lease commitments

The Group leases certain of its office properties, warehouses and staff quarters under non-cancellable operating lease arrangements.

At the end of the reporting period, the Group had total future aggregate minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **$'000**	2017 $'000
Not later than one year	**16,714**	9,378
Later than one year and not later than five years	**16,004**	19,614
Later than five years	**39,541**	52,122
	72,259	81,114

(b) Capital commitments

Capital commitments outstanding at the end of the reporting period not provided for in the financial statements were as follows:

	2018 **$'000**	2017 $'000
Contracted for, but not provided for	**111,434**	61,505

35 ACQUISITION OF A SUBSIDIARY COMPANY

On 20 March 2018, the Group entered into an agreement to acquire the 100% equity interest in Guangdong Rengo Packaging Co., Ltd. ("GD Rengo"), a limited liability company incorporated under the laws of the PRC (the "Acquisition") at a consideration of RMB60,000,000 (equivalent to $74,627,000) in cash. The principal activity of the acquired company is printing and manufacturing of paper cartons. The Directors consider that (i) the Acquisition can be a strategic fit in setting up a multi-locations network for growth and synergy; and (ii) upon completion of the Acquisition, the Group intends to effectively manage the business of GD Rengo for efficiency saving in logistics and enhancement in service coverage to our customers. The Acquisition was completed in May 2018.

35 ACQUISITION OF A SUBSIDIARY COMPANY (CONTINUED)

The assets and liabilities as of 31 May 2018 recognised as a result of the Acquisition are as follows:

	$'000
Property, plant and equipment	21,248
Land use rights	17,898
Inventories	14,967
Trade and bills receivables	38,215
Deferred tax assets	1,322
Prepayments, deposits and other receivables	1,689
Cash and cash equivalents	13,356
Trade and bills payables	(11,443)
Other payable and accrued liabilities	(15,612)
Net identifiable assets acquired	81,640
Less: Gain on bargain purchase	(7,013)
	74,627
Net cash outflow arising on the Acquisition:	
Cash consideration paid	74,627
Bank balances and cash acquired	(13,356)
	61,271

(i) Acquisition-related costs

Acquisition-related costs of $1,085,000 was included in administrative expenses in the consolidated income statement.

(ii) Revenue and profit contribution

GD Rengo contributed revenues of $93,543,000 and net profit of $2,450,000 to the Group for the period from 1 June 2018 to 31 December 2018. If the acquisition had occurred on 1 January 2018, consolidated revenue and consolidated loss after tax for the year ended 31 December 2018 would have been $3,335,675,000 and $69,900,000 respectively.

(iii) Transaction with a substantial shareholder

The seller is Rengo Co., Ltd., which is a substantial shareholder of the Company and the Acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

36 GAIN ON DISPOSAL OF A SUBSIDIARY COMPANY

During the year ended 31 December 2017, the Group entered into an agreement to dispose of its wholly owned subsidiary, Sun Hing Paper (Shenzhen) Company Limited (the "Disposal"), to an independent third party at a consideration of RMB1,026,000,000 (equivalent to $1,211,221,000). The Disposal was completed on 14 December 2017. The principal activity of the former subsidiary company is paper trading.

An analysis on gain on disposal is as follows:

	$'000
Net assets of Disposal:	
Property, plant and equipment	20,059
Land use rights	14,115
Inventories	17,233
Deferred tax assets	42
Trade receivables	48,715
Prepayments, deposits and other receivables	9,860
Cash and cash equivalents	19,054
Other payable and accrued liabilities	(96,467)
Net assets disposed of	32,611
Gain on disposal of a subsidiary company:	
Consideration, pre-tax	1,211,221
Expenses in connection with the Disposal	(34,801)
Net assets disposed of	(32,611)
Gain on disposal, pre-tax	1,143,809
Less: Income tax	(117,365)
Gain on disposal, net of tax	1,026,444
Net cash inflow arising on the Disposal during the year:	
Cash consideration received	820,882
Bank balances and cash disposed of	(19,054)
Expenses paid in connection with the Disposal	(32,282)
Net proceeds received from the Disposal	769,546
Income tax paid	(117,365)
	652,181

36 GAIN ON DISPOSAL OF A SUBSIDIARY COMPANY (CONTINUED)

At 31 December 2017, $390,339,000 of the consideration was held in an escrow account and recorded as other receivables as disclosed in note 21. All the consideration of $1,093,856,000, net of income tax of $117,365,000, was received by the Group in 2018.

A pre-tax gain of $1,143,809,000 and related income tax expenses of $117,365,000 were recognised in the consolidated income statement for the year ended 31 December 2017.

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's principal financial instruments, other than derivatives, comprise cash and bank deposits, trade and bills receivables, other receivables, trade and bills payables, other payables and bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, price risk and liquidity risk. The policies to mitigate each of these risks are summarised below. The board manages and monitors these risks to ensure that appropriate measures are implemented in a timely and effective manner. The Group's accounting policies in relation to derivatives are set out in note 2(l) to the financial statements.

(a) Interest rate risk

The Group's exposure to interest rate risk arises mainly from its bank deposits and bank borrowings.

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses interest rate swaps to manage its long-term bank borrowings which bear floating interest rates. Interest rate risk on bank deposits is considered immaterial.

During the year ended 31 December 2018, interest rate swaps have been entered into to achieve an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. At 31 December 2018, the fair value of interest rate swaps is immaterial to the Group.

At 31 December 2018, the Group had $70,000,000 (2017: $82,000,000) of the variable rate bank borrowings which effectively bear fixed interest rates as a result of the interest rate swaps.

At 31 December 2018, the net cash and bank deposits is $956,086,000 (2017: $1,223,670,000). The interest rate risk is not significant to the Group.

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Foreign currency risk

The Group is exposed to foreign currency risk primarily through its business transactions, assets and liabilities denominated in various foreign currencies primarily Renminbi ("RMB"), Hong Kong dollars ("HKD") and United States dollars ("USD").

The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than the functional currency of the operations to which the transactions relate.

When there are significant foreign currency transactions other than the functional currencies of the major operating companies within the Group, the Group will use forward currency contracts to manage the foreign currency exposure. The forward currency contracts must be in the same currency as the hedged item. At 31 December 2018, the fair value of forward currency contract is immaterial to the Group.

(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 or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rate at the reporting period end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	Exposure to foreign currencies (expressed in HKD)					
	2018			2017		
	RMB $'000	**HKD $'000**	**USD $'000**	RMB $'000	HKD $'000	USD $'000
Trade and bills receivables	**13,981**	**1,289**	**28,415**	12,914	–	20,312
Prepayments, deposits and other receivables	**-**	**-**	**-**	392,624	–	–
Pledged time deposits	**97,010**	**-**	**-**	125,938	–	–
Cash and cash equivalents	**479,847**	**3,010**	**29,604**	129,339	4,141	38,905
Trade and bills payables	**(89,592)**	**(19)**	**(657)**	(92,832)	(18)	(237)
Other payable and accrued liabilities	**-**	**-**	**-**	(2,519)	–	–
Net exposure arising from recognised assets and liabilities	**501,246**	**4,280**	**57,362**	565,464	4,123	58,980

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Foreign currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's (loss)/profit before income tax that would arise 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.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in loss before income tax $'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit before income tax $'000
RMB#	**2%**	**(10,025)**	2%	11,309
	(2%)	**10,025**	(2%)	(11,309)
HKD*	**2%**	**(85)**	2%	82
	(2%)	**85**	(2%)	(82)
USD*	**2%**	**(1,147)**	2%	1,180
	(2%)	**1,147**	(2%)	(1,180)

For the company and subsidiaries with functional currency as HKD

* For subsidiaries with functional currency as RMB

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' (loss)/profit before income tax 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 re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) 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 its trade and bills receivables and deposits placed with banks. The Group has no significant concentrations of credit risk. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

For banks and financial institutions, deposits are only placed with reputable banks. For credit exposures to customers, management of the Group has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group regularly reviews the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is properly managed and significantly reduced.

Since the Group trades only with creditworthy third parties, normally there is no requirement for collateral.

Trade and bills receivables

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 concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 9% (2017: 9%) and 24% (2017: 24%) of the total trade and bills receivables was due from the Group's largest customer and the five largest customers respectively.

Individual 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 and bills receivables are due within 30–90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade and bills receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. The Group measures loss allowance on financial assets based on the past loss experience, existing market conditions as well as forward looking information at the end of each reporting period. Having considered those factors, the Group considered that there is no significant loss allowance recognised in accordance with HKFRS 9 as at 31 December 2018, and no expected credit loss rate has therefore been disclosed.

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) 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 2(n)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade and bills receivables of $8,140,000 were determined to be impaired. The aging analysis of trade and bills receivables that were not considered to be impaired was as follows:

	2017 $'000
Neither past due nor impaired	583,682
Less than 1 month past due	104,299
1 to 3 months past due	102,693
Over 3 months past due	42,763
	249,755
	833,437

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Credit risk (continued)

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

	2018 **$'000**	2017 $'000
At 31 December 2017 under HKAS 39	**8,140**	–
Impact on initial application of HKFRS 9 (note 2(c)(i))	**2,600**	–
At 1 January	**10,740**	7,314
Acquisition of a subsidiary company	**14**	–
Impairment loss of trade receivables (note 6)	**602**	1,393
Amount written off as uncollectible	**(1,881)**	(798)
Exchange differences	**(183)**	231
At 31 December	**9,292**	8,140

The origination of new trade and bills receivables net of those settled resulted in an increase in loss allowance contributed to the increase in the loss allowance during year ended 31 December 2018.

(d) Equity price risk

The Group is exposed to listed equity securities price risk because investments held by the Group for non-trading purpose are classified as financial investments (see note 18). The Group's listed investments are listed on the Stock Exchange of Hong Kong. The Group's unquoted investment are held for long term strategic purposes.

The Group does not actively trade in equity investments and in the opinion of the Board of Directors, the equity price risk related to trading activities to which the Group is exposed to is not material. Accordingly, no quantitative market risk disclosures for equity price risk have been prepared.

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Liquidity risk

The Group's objectives are to maintain sufficient cash and to ensure the availability of funding through an adequate amount of committed banking facilities. The Group aims to maintain flexibility in funding by keeping committed banking facilities available.

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

	2018					2017				
	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but within 2 years $'000	More than 2 years but within 5 years $'000	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but within 2 years $'000	More than 2 years but within 5 years $'000
Bank borrowings	131,000	137,424	27,186	63,569	46,669	207,752	218,392	80,602	27,552	110,238
Trade and bills payables	213,537	213,537	213,537	-	-	224,685	224,685	224,685	-	-
Other payable and accrued liabilities	212,862	212,862	212,862	-	-	200,976	200,976	200,976	-	-
	557,399	563,823	453,585	63,569	46,669	633,413	644,053	506,263	27,552	110,238

(f) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

– Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018 and 2017:

	2018				2017			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets								
Financial investments:								
– Club debentures	**-**	**-**	**718**	**718**	–	–	788	788
– Unlisted equity securities	**-**	**-**	**97,924**	**97,924**	–	–	33,394	33,394
– Listed equity securities	**13,688**	**-**	**-**	**13,688**	14,938	–	–	14,938
	13,688	**-**	**98,642**	**112,330**	14,938	–	34,182	49,120

(i) Financial instruments in level 1

The fair value of listed equity instruments traded in active markets is based on quoted market prices at the end of the reporting period.

(ii) Financial instruments in level 3

The fair value of club debentures is determined with reference to quoted market prices at the end of the reporting period without any deduction for transaction costs.

The fair values of unlisted equity instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period.

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value estimation (continued)

(ii) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments for the years ended 31 December 2018 and 2017:

	2018			2017		
	Club debentures $'000	Unlisted equity securities $'000	Total $'000	Club debentures $'000	Unlisted equity securities $'000	Total $'000
At 1 January	**788**	**33,394**	**34,182**	736	31,969	32,705
Impact on initial application of HKFRS9	**-**	**80**	**80**	–	–	–
Payment for purchases	**-**	**65,450**	**65,450**	–	–	–
Loss recognised in profit or loss	**(70)**	**-**	**(70)**	–	–	–
Net gain transfer to equity	**-**	**-**	**-**	52	–	52
Exchange differences	**-**	**(1,000)**	**(1,000)**	–	1,425	1,425
At 31 December	**718**	**97,924**	**98,642**	788	33,394	34,182
Total loss for the year included in profit or loss	**(70)**	**-**	**(70)**	–	–	–

38 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2018 $'000	2017 $'000
Sales of raw materials or finished goods to:		
A substantial shareholder	**1,863**	3,267
Parties under control of a substantial shareholder	**10,058**	3,636

	2018 $'000	2017 $'000
Purchases of raw materials from:		
A substantial shareholder	**587**	237

The above transactions were carried out in the normal course of business of the Group and on terms as agreed with the parties.

38 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties

Save as disclosed in notes 20 and 24, there were no outstanding balances with related parties as at 31 December 2018.

(c) Compensation of key management personnel of the Group

	2018 **$'000**	2017 $'000
Short-term employment benefits (excluding discretionary bonus)	**22,092**	20,936
Discretionary bonus	**264**	16,642
Share-based payments	**11,988**	6,508
Post-employment benefits	**806**	531
	35,150	44,617

(d) Applicability of the Listing Rules relating to connected transactions

The related party transaction in respect of note 38(a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Continuing Connected Transactions" of the Directors' Report.

39 COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	2018 **$'000**	2017 $'000
Non-current assets		
Property, plant and equipment	**120**	172
Land use rights	**3,974**	4,474
Intangible asset	**712**	1,017
Financial investments	**69,964**	12,434
Investments in subsidiaries	**271,935**	241,935
Deferred tax assets	**15,735**	5,481
	362,440	265,513

39 COMPANY LEVEL STATEMENT OF FINANCIAL POSITION (CONTINUED)

	2018 **$'000**	2017 $'000
Current assets		
Prepayments, deposits and other receivables	**1,412**	2,528
Amounts due from subsidiaries	**1,778,808**	1,518,208
Loans to subsidiaries	**85,353**	30,000
Dividend receivable from a subsidiary	**–**	378,700
Cash and cash equivalents	**541,695**	895,791
	2,407,268	2,825,227
Current liabilities		
Amounts due to subsidiaries	**13,543**	8,545
Other payable and accrued liabilities	**4,651**	12,084
	18,194	20,629
Net current assets	**2,389,074**	2,804,598
NET ASSETS	**2,751,514**	3,070,111
CAPITAL AND RESERVES		
Share capital	**1,652,854**	1,652,854
Reserves	**1,035,109**	1,144,897
Proposed dividends	**63,551**	272,360
TOTAL EQUITY	**2,751,514**	3,070,111

Approved and authorised for issue by the board of directors on 22 March 2019.

Yum Chak Ming, Matthew
Director

Sung Chee Keung
Director

(Expressed in Hong Kong dollars unless otherwise indicated)

40 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

In August 2018, the Group entered into an agreement with an independent third party to form a joint venture company in Vietnam with a registered capital of USD10,000,000 (equivalent to $78,500,000), in which the Group will contribute USD9,050,000 (90.5% of the total registered capital) to the joint venture company.

In February 2019, the joint venture company, HH Dream Printing Company Limited, was established.

41 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.

42 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) Interpretation 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

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

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 the HKFRS 16 which may have a significant 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, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 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 2(m), currently the Group classifies leases into operating leases as the lessee.

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 which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and 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 use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, 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.

42 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)

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 34(a), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to $72,259,000 for properties and other assets, the majority of which is payable either between 1 and 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted respectively, 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.

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