Arts Group

ANNUAL REPORT 2017

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability) Stock Code: 1120

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

NG Hoi Ying, Michael
NG Kim Ying
LEE Wai Chung (resigned on 30th June, 2017)

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

COMPANY SECRETARY

CHOI Pui Yiu

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Stephenson Harwood
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

WEBSITE

www.artsgroup.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited


Group Structure

At 31st December, 2017

Arts Optical International Holdings Limited

Investment holding

Arts Optical Company Limited (100%)

Trading in prescription frames and sunglasses to original design manufacturing customers

Argent Optical Manufactory Limited (100%)

Manufacture of prescription frames and sunglasses

Stepper Eyewear Limited (80%)

Trading in prescription frames and sunglasses under house and licensed brand names

Arts Studio Limited (100%)

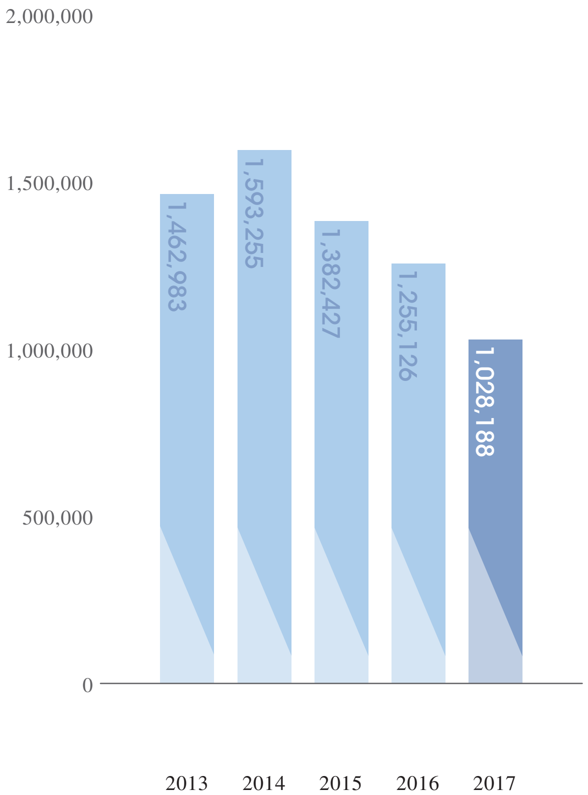
Trading in prescription frames and sunglasses under house and licensed brand names

Apex City Industrial Limited (100%)

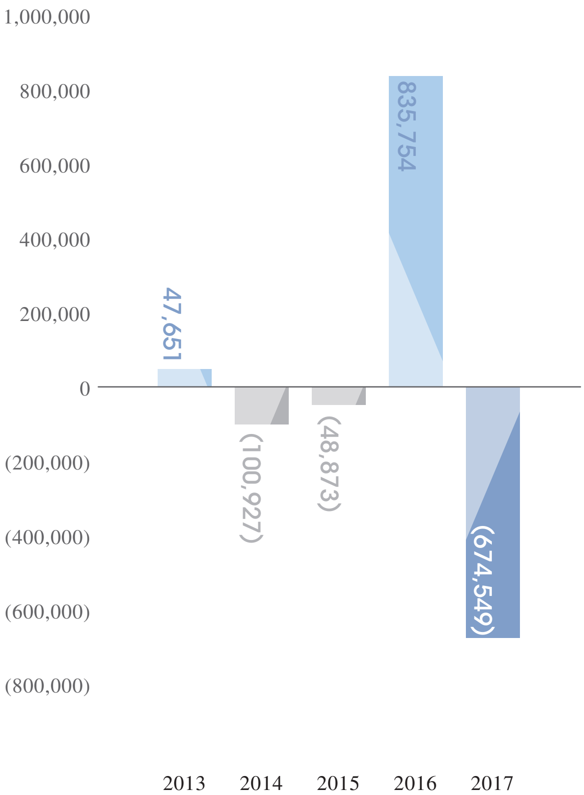
Trading in prescription frames and sunglasses under house and licensed brand names

Financial Highlights

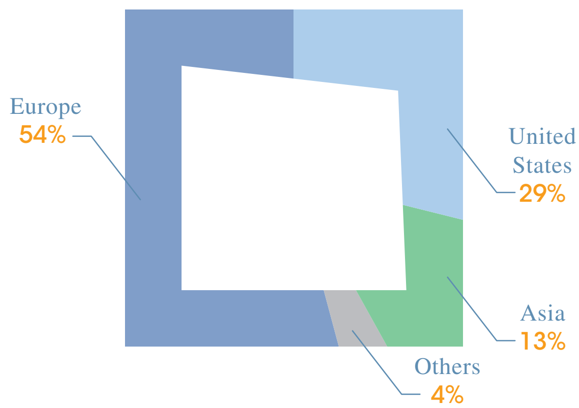
Consolidated revenue (HK$'000)



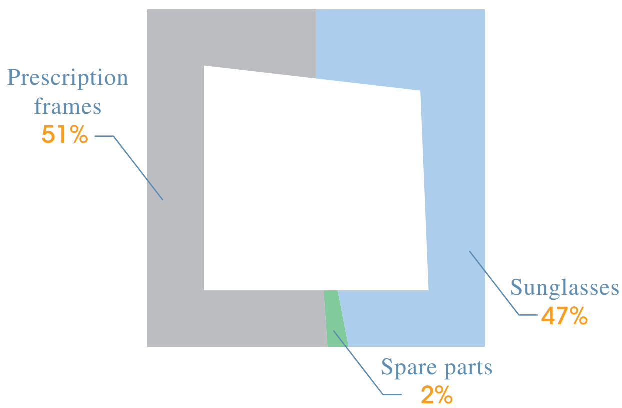
Profit (loss) attributable to owners of the Company (HK$'000)



Consolidated revenue by geographical locations in 2017



Revenue of ODM division by product range in 2017



Chairman's Statement

BUSINESS REVIEW

Profitability analysis

For the financial year ended 31st December, 2017, the Group recorded a loss attributable to owners of the Company and loss per share of HK$164.5 million and HK$0.43 respectively (2016: profit attributable to owners of the Company and earnings per share of HK$835.8 million and HK$2.18 respectively). In addition, a non-operational impairment loss of HK$510.0 million for property, plant and equipment, and prepaid lease payments was recorded due to unexpected decrease in sales orders from certain key customers in business of original design manufacturing division. As a result, total loss attributable to owners of the Company and loss per share increased to HK$674.5 million and HK$1.76 respectively after included the impairment loss.

The business environment was extremely challenging during the year amid the change of major customer's sourcing strategies and the cost pressure arising from continuing shrink of business volume after relocation of our Shenzhen manufacturing plant since 2015. The Group's consolidated revenue decreased by 18% to HK$1,028.2 million in 2017 (2016: HK$1,255.1 million).

Other than the impairment loss mentioned-above, the loss reported for the year of 2017 was mainly attributable to:

(i) the negative impact on the profitability of the Group arising from diseconomies of scale as the Group's consolidated revenue decreased by 18% in 2017 as compared with 2016;

(ii) the continuous increase in labour costs and other operating costs in Mainland China in 2017; and

(iii) higher depreciation charges of the new buildings and leasehold improvements in the factory sites in Pingdi Town of Shenzhen City after they fully went into production in 2017.

Chairman's Statement

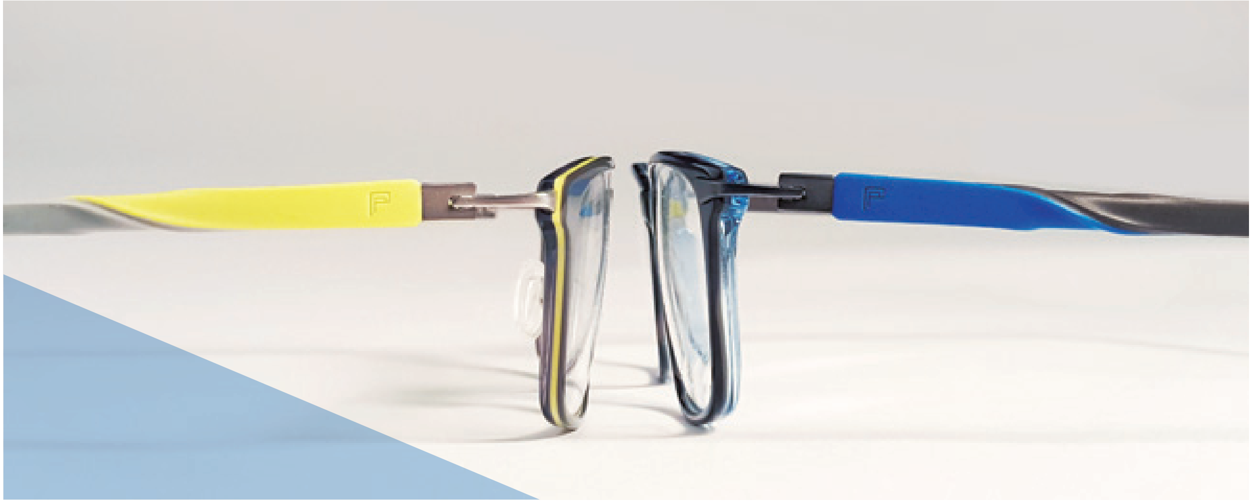
Original design manufacturing ("ODM") division

Our ODM division was the key revenue contributor and revenue generated by this division contributed to 75% of the consolidated revenue of the Group in 2017 (2016: 82%). Sales to ODM customers significantly decreased by 24% from HK$1,027.0 million in 2016 to HK$776.1 million in 2017. Geographically, sales to customers in Europe, the United States (the "US") and Asia accounted for 53%, 37% and 10% respectively of the revenue of the ODM division in 2017 (2016: 62%, 31% and 7% respectively). Sales to Europe and the US dropped by 35% and 11% respectively whereas sales to Asia increased moderately by 6% in 2017. Significant reduction in sales in European market mainly because one of our major European customers had changed her purchasing strategy from outsourcing to self-production during the year. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2017. Sales of prescription frames, sunglasses and spare parts accounted for 51%, 47% and 2% respectively of revenue of the ODM division in 2017 (2016: 53%, 45% and 2% respectively).

Distribution division

Our distribution division continued to benefit from the consumers' preference for value frames in the face of economic challenges. Revenue generated by the distribution division increased by 12% from HK$226.1 million in 2016 to HK$252.1 million in 2017 and accounted for 25% of the consolidated revenue of the Group in 2017 (2016: 18%). The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France and South Africa, and independent distributors in other countries. Europe was still the biggest market but its relative proportion of sales decreased due to higher growth rates recorded for sales to other geographical markets. Sales to Europe, Asia, the US and other regions accounted for 58%, 20%, 6% and 16% respectively of the revenue of the distribution division in 2017 (2016: 59%, 19%, 11% and 11% respectively). Sales to Europe, Asia and other regions were up by 10%, 18% and 61% respectively. On the other hand, sales dropped by 38% in the US after we tighten the credit control for our major US distributor. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

Chairman's Statement



Financial position and liquidity

Cash flows

The Group recorded a net cash inflow from operating activities of HK$46.1 million (2016: net cash outflow of HK$321.0 million) despite a substantial loss recorded for the year. The Group spent HK$142.3 million in capital expenditure and majority of these expenditures spent were for final phase of new buildings and leasehold improvements in the factory sites in Pingdi Town of Shenzhen City. The Group also arranged early settlement of a term loan with bank with a total amount of HK$60.0 million to reduce interest costs. The net cash position of the Group (being the total of structure deposits, short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK$410.2 million as at 31st December, 2016 to HK$291.7 million as at 31st December, 2017.

Working capital management

In line with the decline in revenue during the period under review, total amounts of trade debtors and bills receivable balances decreased by 21% from HK$349.3 million as at 31st December, 2016 to HK$275.9 million as at 31st December, 2017. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) decreased from 102 days in 2016 to 98 days in 2017 which mainly driven by higher decrease in sales from major ODM customers who generally had longer payment terms. Inventories balances only decreased slightly by 3% from HK$162.9 million as at 31st December, 2016 to HK$158.2 million as at 31st December, 2017 because more inventories were built up at year end for delivery to overseas customers prior to the Chinese New Year holidays in early February of 2018. It also leaded to inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 54 days in 2016 to 66 days in 2017. Due to the final portion of capital expenditure spent by the Group for the relocation of its factory in early 2017, the current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased slightly from 1.8 to 1.0 as at 31st December, 2016 to 1.7 to 1.0 as at 31st December, 2017. We expect the current ratio will become stable after completion of the relocation project.

Chairman's Statement

Gearing position

The Group maintained a low gearing position throughout 2017. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained at around 1% as at both 31st December, 2017 and 31st December, 2016. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$9.8 million as at 31st December, 2017 (31st December, 2016: HK$11.0 million).

Net asset value

The Group had 383,650,000 shares in issue as at both 31st December, 2017 and 31st December, 2016 with equity attributable to owners of the Company HK$1,144.6 million and HK$1,820.1 million as at 31st December, 2017 and 31st December, 2016 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 31st December, 2017 was HK$2.98 (31st December, 2016: HK$4.74).

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi and the exchange rate movements between the US dollar and the Hong Kong dollar were relatively stable during the year under review.

PROSPECTS

Looking forward, the business environment for our ODM business is expected to remain challenging and the market demand will still be volatile because of the unresolved Brexit event and the recent trade actions by the US administration increase the risks of a full-scale trade war. In view of the challenge ahead, the Group will work closely with our key customers to provide high quality products with competitive price range.

The business of distribution division has continued to grow healthy in 2017. It is the Group's long term strategy to increase investments in this higher margin business to drive for future growth and leverage the risk from the highly competitive environment in ODM business. In January 2018, the Group had set up a new subsidiary in Shanghai, China to strengthen the distribution business of STEPPER eyewear in this highly populated market. Direct distribution of the Group's STEPPER eyewear is conducted by the Group's subsidiaries in the United Kingdom, France and South Africa and by independent distributors in other countries. The Group is actively pursuing investment opportunities to further strengthen and expand its brands portfolio and distribution network.

On the cost side, Renminbi has steadily appreciated against the US dollars since second quarter of 2017 which will certainly put pressure on the margins of the Group. To improve the profit margin, the management has set up relevant committees to streamline its operation efficiency and implement various cost saving exercises.

Going forward, the management will continue to build on our strong financial position and cautiously invest in our core businesses, with particular emphasis on production automation, expansion of brand portfolio and our sales network while adhering to our prudent financial discipline.

DIVIDENDS

The Board does not recommend the payment of a final dividend (2016: nil), and a second special dividend (2016: 25.0 HK cents per share) for the year ended 31st December, 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company to be held on 24th May, 2018 (the "AGM"), the register of members of the Company will be closed. Details of such closure is set out below:

Latest time to lodge transfer documents for registration	4:30 pm on 17th May, 2018
Closure of register of members	18th May, 2018 to 24th May, 2018 (both dates inclusive)
Record date	24th May, 2018

During the above closure period, no transfer of shares will be effected. To be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The notice of AGM will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in mid-April 2018.

APPRECIATION

On behalf of the board of directors, I would like to express my sincere appreciation and thanks to our shareholders, customers, suppliers, bankers and staff for their effort and commitment.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 28th March, 2018

Biographical Details of Directors and Management

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 63, is an executive director of the Company and the founder as well as the chairman of the Group. Mr. Ng is responsible for the corporate policy making and strategic planning of the Group. He has 50 years of experience in the optical products industry. Mr. Ng won the Young Industrialist Award of Hong Kong organised by the Federation of Hong Kong Industries in 1995. He was admitted as an Honorary Fellow of The Professional Validation Council of Hong Kong Industries in 2004. Mr. Ng was the President of the Hong Kong Optical Manufacturers Association Ltd. (the "HKOMA") during 2002 and 2006 and is currently a committee member of the HKOMA, a Director of Hong Kong Commerce and Industry Associations Limited and a Life President of the Hong Kong Wong Tai Sin Industry And Commerce Association Limited. He is the brother of Mr. Ng Kim Ying.

NG Kim Ying, aged 62, is an executive director of the Company. Mr. Ng Kim Ying joined the Group in 1985 and is responsible for the implementation and application of information technology to the business of the Group. He has 33 years of experience in the optical products industry and is the brother of Mr. Ng.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Chi Wai, aged 51, is an independent non-executive director, the chairman of the Audit committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wong is also an independent non-executive director for Bonjour Holdings Limited, Kin Yat Holdings Limited, and C&D International Investment Group Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Wong obtained a Bachelor degree in Social Sciences from and was awarded a Post-graduate Certificate in Laws by the University of Hong Kong in 1988 and 1993 respectively. He is a practising certified public accountant in Hong Kong and an associate member of The Institute of Chartered Accountants in England and Wales. He has 30 years of experience in the accountancy profession. Other than his private practice in accounting, he is currently a trainee solicitor in a law firm. Mr. Wong joined the Group in 2004.

CHUNG Hil Lan Eric, aged 52, is an independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Chung obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Chung has 30 years of experience in the accountancy profession and is currently the owner of Eric H. L. Chung & Co., a certified public accountants firm in Hong Kong. He joined the Group in 2004.

LAM Yu Lung, aged 53, is an independent non-executive director, the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Lam is also an independent non-executive director for Telecom Digital Holdings Limited which is listed on the Main Board of the Stock Exchange. Mr. Lam obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Lam has 30 years of experience in the accountancy profession and is currently a partner of Zhonghui Anda CPA Limited, a certified public accountants firm in Hong Kong. He joined the Group in 2011.

Biographical Details of Directors and Management

SENIOR MANAGEMENT

CHOI Pui Yiu, aged 53, is the chief financial officer and the company secretary of the Group. Mr. Choi joined the Group in 2017 and is responsible for the Group's finance, accounting and company secretarial matters. He obtained a Bachelor degree in Science from the Northeast Missouri State University of the United States of America and a Master degree in Management from the Dongbei University of Finance and Economics of the People's Republic of China in 1988 and 2005 respectively. Mr. Choi is a member of Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He has 29 years of experience in the accountancy profession and has extensive exposure to various manufacturing industries.

LI Chi Hung, aged 57, is the general manager of the Group's production plants in Shenzhen, Heyuan and Zhongshan. Mr. Li joined the Group in 1976 and assisted Mr. Ng in the establishment and expansion of the production plants mentioned above. He is also responsible for the overall management and development of these plants and has 42 years of experience in the optical products industry.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries, associate and joint venture are the manufacture of, and trading in, prescription frames and sunglasses as well as property holding, which are set out in notes 42, 21 and 22 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis using financial key performance indicators, can be found in the Chairman's Statement set out on pages 5 to 9 of this Annual Report. This discussion forms part of this Directors' Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 34 of this Annual Report.

The directors have resolved not to declare any interim dividend, but a first special dividend of 2.0 HK cents per share amounting to HK$7,673,000 was paid to the shareholders during the year. The directors do not recommend the payment of a final dividend, and a second special dividend for the year ended 31st December, 2017.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 113 of this Annual Report.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2017 were as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Contributed surplus	**105,369**	105,369
Retained earnings	**4,738**	5,381
	110,107	110,750

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Ng Hoi Ying, Michael
Ng Kim Ying
Lee Wai Chung *(Note)*

Note: Mr. Lee Wai Chung resigned as an executive director with effect from 30th June, 2017 in order to devote more time to his personal commitments.

Independent non-executive directors:

Wong Chi Wai
Chung Hil Lan Eric
Lam Yu Lung

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

Each of the independent non-executive directors was appointed for a term of not more than three years and is subject to the retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors independent.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Details of the connected transaction entered into by the Group during the year are set out in note 40 to the consolidated financial statements.

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or an entity connected with a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws of the Company, the directors of the Company and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions and damages which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties. The Company has arranged appropriate directors' and officers' liability insurance for its directors and officers.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2017, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of 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:

Shares in the Company (Long Positions)

	Number of issued ordinary shares held				
Name of director	**Personal interests**	**Family interests**	**Other interests**	**Total**	**Approximate percentage of issued share capital of the Company**
Ng Hoi Ying, Michael	2,856,000	5,656,000	151,000,000 *(Note)*	159,512,000	41.58%
Ng Kim Ying	23,126,347	5,000,000	—	28,126,347	7.33%

Note: These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Hoi Ying, Michael.

Save as disclosed above, as at 31st December, 2017, none of the directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors of the Company, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st December, 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	151,000,000	*(Note a)*	39.36%
Maritime Overseas Assets Limited	Held by controlled corporation	151,000,000	*(Note a)*	39.36%
Ratagan International Company Limited	Beneficial owner	151,000,000	*(Note a)*	39.36%
FMR LLC	Held by controlled corporation	32,048,360	*(Note b)*	8.35%
Fidelity Puritan Trust	Beneficial owner	24,645,000	*(Note c)*	6.42%
David Michael Webb	Beneficial owner	6,889,000		1.80%
	Held by controlled corporation	23,877,000	*(Note d)*	6.22%
Preferable Situation Assets Limited	Beneficial owner	23,877,000	*(Note d)*	6.22%

Notes:

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of The Arts 2007 Trust. The Arts 2007 Trust was a discretionary trust and the beneficiaries of which included Mr. Ng Hoi Ying, Michael. Under The Arts 2007 Trust, 151,000,000 shares of the Company were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBCITL.

(b) According to a corporate substantial shareholder notice filed by FMR LLC on 3rd March, 2017 (with the date of the relevant event as set out in the corporate substantial shareholder notice being 27th February, 2017), FMR LLC held 32,048,360 shares of the Company indirectly through FMR Co., Inc.. FMR Co., Inc. is wholly-owned by Fidelity Management & Research Company, which is a wholly-owned subsidiary of FMR LLC. Of the above-mentioned 32,048,360 shares of the Company held by FMR Co., Inc., 3,119,000 shares of the Company were held for Fidelity Management Trust Company, which is wholly-owned by FMR LLC, while 4,284,360 shares of the Company were held for Fidelity Investments Canada ULC, which is ultimately owned by certain employees and shareholders of FMR LLC. Those employees and shareholders of FMR LLC own 100% equity interest in Fidelity Canada Investors LLC, which owns 64% equity interest in 483A Bay Street Holdings LP. 483A Bay Street Holdings LP owns 100% equity interest in BlueJay Lux 1 S.a.r.l., which owns 100% equity interest in FIC Holdings ULC, which in turn owns 100% equity interest in Fidelity Investments Canada ULC.

(c) According to a corporate substantial shareholder notice filed by Fidelity Puritan Trust on 3rd March, 2017, as at 27th February, 2017 (i.e. the date of the relevant event as set out in the corporate substantial shareholder notice filed on 3rd March, 2017), 24,645,000 shares of the Company were held directly by Fidelity Puritan Trust.

(d) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. David Michael Webb was deemed to be interested in the 23,877,000 shares of the Company held by PSAL under Part XV of the SFO.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed no other person as having notifiable interests or short positions in the issued share capital of the Company as at 31st December, 2017.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2017, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 39% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 12% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 25% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 9% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers mentioned above.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or similar rights as at 31st December, 2017 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda.

SUFFICIENCY OF PUBLIC FLOAT

Based on information which is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float as at the date of this report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. It puts great emphasis on environmental protection and sustainable development. The Group has actively promoted a material-saving and environmentally friendly working environment so as to protect the environment and reduce consumption.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

So far as the Company is aware, the Group has complied with all relevant laws and regulations promulgated by the relevant regulatory bodies that have a significant impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands that employees are valuable assets and provides a harmonious, safe and professional working environment and a competitive remuneration package to its employees. Details of the emolument policy of the Group are disclosed under the heading "Emolument Policy" of this report.

The Group maintains a close partnership with its customers and suppliers to fulfil its immediate and long-term goals. During the year under review, there was no material and significant dispute between the Group and its suppliers and/or customers.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is determined by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the executive directors of the Company were determined by the Remuneration Committee benchmarked against comparable companies in Hong Kong. The emoluments of the independent non-executive directors of the Company were recommended by the board of directors of the Company (the "Board") and approved by the shareholders at the annual general meeting.

Details of the retirement benefit schemes for all qualifying employees of the Group are set out in note 37 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 19 to 27 of this Annual Report.

Directors' Report

EVENTS AFTER THE REPORTING PERIOD

As at the date of this Report, the Board is not aware of any important events affecting the Group that have occurred since the end of the year under review.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 28th March, 2018

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has adopted the code provisions set out in the Corporate Governance Code (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") as its own code on corporate governance practices. The Company has complied with all applicable code provisions set out in the CG Code throughout the year ended 31st December, 2017, except for deviation from code provision A.2.1 of the CG Code as disclosed under the paragraph "Chairman and Chief Executive Officer" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31st December, 2017.

BOARD OF DIRECTORS

At 31st December, 2017, the Board comprises five Directors, two of whom are executive Directors, namely Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying, and three are independent non-executive Directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.

During the year ended 31st December, 2017, four Board meetings and one General meeting were held. The attendance of each Director is set out as follows:

	Attendance Record	
Directors	**Board meetings**	**General meeting**
Ng Hoi Ying, Michael *(Chairman)*	4/4	1/1
Ng Kim Ying	4/4	1/1
Lee Wai Chung *(Note)*	2/4	1/1
Wong Chi Wai	4/4	1/1
Chung Hil Lan Eric	4/4	1/1
Lam Yu Lung	4/4	1/1

Note: Mr. Lee Wai Chung resigned as an executive director with effect from 30th June, 2017.

The Board is responsible for the formulation of the key business and strategic decisions of the Company and its subsidiaries (collectively the "Group") and monitoring the performances of the management team. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's business to the management team.

Mr. Ng Hoi Ying, Michael, the Chairman of the Board and an executive director and Mr. Ng Kim Ying, an executive director, are brothers.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skill. The company secretary of the Company (the "Company Secretary") also updates the Directors on the latest development of the Listing Rules and other applicable regulatory requirements.

BOARD OF DIRECTORS (continued)

The Directors participated in the following trainings during the year ended 31st December, 2017:

Directors	Types of training
Ng Hoi Ying, Michael	C
Ng Kim Ying	C
Lee Wai Chung *(Note)*	A,C
Wong Chi Wai	A,B,C
Chung Hil Lan Eric	A,C
Lam Yu Lung	A,C

Note: Mr. Lee Wai Chung resigned as an executive director with effect from 30th June, 2017.

A: attending seminars and/or conferences
B: giving talks at seminars
C: reading newspapers and journals relating to directors' duties and responsibilities as well as updates on the Listing Rules and other applicable regulatory requirements

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group. The Board intends to maintain this structure in the future as it believes that this ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and the management of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to Bye-law 87(1) of the bye-laws of the Company (the "Bye-laws"), at each annual general meeting of the Company, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Bye-law 87(2) of the Bye-laws further provides that the Director(s) to retire by rotation shall be those who have been longest in office since their last re-election or appointment, and as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. According to Bye-law 86(2), any Director appointed by the Board to fill a casual vacancy shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

Mr. Wong Chi Wai ("Mr. Wong") and Mr. Chung Hil Lan Eric ("Mr. Chung") were re-elected as Directors in the annual general meeting of the Company held on 20th May, 2015 and 25th May, 2016 respectively for a term of not more than 3 years and are subject to retirement by rotation in accordance with the Bye-laws. In accordance with the abovementioned Bye-laws, Mr. Wong and Mr. Chung will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Their proposed term of office shall not be more than 3 years and is subject to retirement by rotation in accordance with the Bye-laws.

BOARD COMMITTEES

To enhance the effectiveness of the management of the Company, the Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee various aspects of the Company's affairs.

AUDIT COMMITTEE

An Audit Committee has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but are not limited to) review of the interim and annual reports of the Group as well as various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company. The Audit Committee has performed the above duties during the year ended 31st December, 2017. Three Audit Committee meetings were held during the year ended 31st December, 2017 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Wong Chi Wai	3/3
Chung Hil Lan Eric	3/3
Lam Yu Lung	3/3

REMUNERATION COMMITTEE

A Remuneration Committee has been established by the Company since 2003 and currently comprises Mr. Chung Hil Lan Eric (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive Directors.

Two Remuneration Committee meetings were held during the year ended 31st December, 2017 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Chung Hil Lan Eric	2/2
Wong Chi Wai	2/2
Lam Yu Lung	2/2

The major roles and functions of the Remuneration Committee are summarised as follows:

1. to determine the remuneration of the executive Directors and senior management; and

2. to review the remuneration policy of the Group.

During the year ended 31st December, 2017, the Remuneration Committee has, among other things, reviewed and determined the remuneration packages of the executive Directors and senior management with reference to their performance and the overall remuneration policy of the Group and approved the terms of executive Directors' service contracts. The remuneration of independent non-executive Directors was recommended by the Board and approved by the shareholders of the Company at the annual general meeting.

Corporate Governance Report

REMUNERATION COMMITTEE (continued)

As at 31st December, 2017, the Group employed approximately 5,300 (31st December, 2016: 7,500) full time staff in Mainland China, Hong Kong, Europe and South Africa. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

NOMINATION COMMITTEE

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors, making recommendations to the Board on the appointment or re-appointment of Directors and determining the policy, nomination procedures and process and criteria for the nomination of Directors. The Nomination Committee has performed the above duties during the year ended 31st December, 2017.

The Nomination Committee has adopted a board diversity policy in 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving sustainable and balanced development, the Company views increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates will be based on a range of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

One Nomination Committee meeting was held during the year ended 31st December, 2017 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Lam Yu Lung	1/1
Wong Chi Wai	1/1
Chung Hil Lan Eric	1/1

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the corporate governance policy of the Company and performing the corporate governance duties as below:

1. to develop and review the Group's policies and practices on corporate governance and make recommendations;

2. to review and monitor the training and continuous professional development of Directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

5. to review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31st December, 2017, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the financial statements, have made judgements and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis.

A statement by the auditor about its reporting responsibilities is included in the Independent Auditor's Report on pages 28 to 33 of this Annual Report.

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	**Fees paid/payable** *HK$'000*
Audit service	1,450
Non-audit services:	
Review on 2017 interim results	380
Tax compliance services	238
Review on 2017 preliminary annual results	13

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Audit Committee assists the Board in evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems.

The risk management and internal control systems of the Group comprise a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective check and balances.

The annual review of the effectiveness of the risk management and internal control systems of the Group by the Board during the year ended 31st December, 2017 has considered the following:

- the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions as well as review of risk management and internal control systems;

- the changes in the nature and extent of significant risks during the year and the Group's ability to respond to changes in its business and external environment;

- the scope and quality of management's ongoing monitoring of risks and of the internal control systems;

- the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management;

- significant control failings or weaknesses, if any, that have been identified during the year and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and

- the effectiveness of the Group's processes in relation to financial reporting and statutory and regulatory compliance.

The processes for assessing internal controls by the Audit Committee include:

- regular interviews with executive Directors in relation to key business operations, internal control and compliance issues, both financial and non-financial;

- review of significant issues arising from internal control review reports and the external audit report;

- private sessions with external consultants and auditors; and

- review of annual assessment and certification of internal controls from executive Directors, management of overseas subsidiaries and department heads in their areas of responsibility.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Audit Committee has also reviewed papers prepared by executive Directors covering:

- periodic financial reports and accounts;
- preview of annual accounting and financial reporting issues;
- annual internal control review plan;
- whistle-blowing reports;
- report on the Group's internal control systems; and
- reporting of outstanding litigation and compliance issues.

The Board reviews the risk management and internal control systems of the Group annually. With the assistance of an external consultant, Royal Assets Advisory Limited and the Audit Committee, the Board assessed the effectiveness and adequacy of the Group's risk management and internal control systems which covered the process used to identify, evaluate and management significant risks, all material controls, including financial, operational and compliance controls during the year ended 31st December, 2017. No major issue had been raised but certain areas for improvement had been identified and appropriate measures had been taken.

The Company currently does not have an internal audit function. The Board had been conducting the review of the effectiveness of the Group's risk management and/or internal control systems with the assistance of external consultants and the Audit Committee since 2006 as the Board believed that this was a cost-efficient and effective approach given the size and operational complexity of the Group. The Board will review the need for an internal audit function on an annual basis.

INSIDE INFORMATION

The Group has in place a Policy on Disclosure of Inside Information (the "Policy") which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way so as not to place any person in a privileged dealing position and to allow time for the market to price the listed securities of the Company with the latest available information.

This Policy also provides guidelines to the directors, officers and all relevant employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information.

Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the Company's website and Hong Kong Exchanges and Clearing Limited's HKExnews website, according to the requirements of the Listing Rules.

COMPANY SECRETARY

Mr. Choi Pui Yiu has been appointed as the Company Secretary since June 2017. There was no non-compliance with requirements of professional qualifications and professional training under the Listing Rules during the year ended 31st December, 2017.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company carrying the right to vote at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to Bye-law 59, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Making An Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with his/her contact details, addressed to the head office of the Company at the following address or facsimile number or via email:

Arts Optical International Holdings Limited
Unit 308, 3/F, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

Facsimile number: (852) 2342 2704
Email: eddie.choi@artsgroup.com
Attention: Company Secretary

All enquiries shall be collected by the Company Secretary who shall report to the executive Directors periodically. The executive Directors shall review the enquiries and assign different kinds of enquiries to the appropriate division head/manager for answering. After receiving the answers from the relevant division head/managers, the Company Secretary will collate the answers for the executive Directors' review and approval. The Company Secretary shall then be authorised by the executive Directors to reply to each enquiry in writing.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company, specifying his/her shareholding information, contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

INVESTOR RELATIONS

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the year ended 31st December, 2017. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Shareholders' Communication Policy

The Company has adopted a Shareholders Communication Policy since 2012 with the objective of ensuring that the Company's shareholders are provided with ready, equal and timely access to balanced and user-friendly information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the shareholders and the investment community to engage actively with the Company.

Independent Auditor's Report

Deloitte. 德勤

To the Shareholders of
Arts Optical International Holdings Limited
雅視光學集團有限公司
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 34 to 112, which comprise the consolidated statement of financial position as at 31st December, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the 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 31st December, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of property, plant and equipment and prepaid lease payments	
We identified the estimated impairment of property, plant and equipment and prepaid lease payments as a key audit matter due to judgements and estimation are required in determining the recoverable amount for impairment assessment of an individual asset or the cash-generating unit to which the asset belongs. As disclosed in the notes 4, 17 and 18 to the consolidated financial statements, when a review for impairment is conducted, the recoverable amount is based on the value in use calculations which rely on the management's assumptions. These assumptions relate to discount rates applied and forecast sales growth and margin figures which are subject to estimation. As disclosed in the notes 17 and 18 to the consolidated financial statements, the Group held HK$620,327,000 and HK$32,847,000 of property, plant and equipment and prepaid lease payments respectively as at 31st December, 2017 (net of impairment of approximately HK$491,155,000 and HK$18,845,000, respectively, during the year).	Our procedures in relation to estimated impairment of property, plant and equipment and prepaid lease payments included: • Assessing management's process in identifying the impairment indicators of property, plant and equipment and prepaid lease payments; • Challenging and assessing the reasonableness of management's key assumptions including discount rates and forecast sales growth rate and margin adopted in future cash flows forecast by management and checking its mathematical accuracy; • Discussing with the specialist appointed by the Group and involved our specialist to review the discount rate adopted; and • Assessing the sensitivity analyses performed by the management and the extent of the impact on the value in use calculations.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to the significant judgement associated with determining the fair value. As disclosed in notes 4 and 16 to the consolidated financial statements, the investment properties are located in Hong Kong and carried at approximately HK$154 million as at 31st December, 2017. An increase in fair value of HK$13 million was recognised in profit or loss for the year ended 31st December, 2017. The Group's investment properties are held at fair value based on the valuations performed by an independent firm of qualified professional valuers (the "Valuers"). Details of the valuation technique and key inputs used in the valuations are disclosed in note 16 to the consolidated financial statements. The valuations have been arrived at using income capitalisation approach. The valuations of investment properties are dependent on certain key inputs, including reversion yield and monthly market rent and contracted monthly rent of similar properties and adjusted based on the Valuer's knowledge of the factors specific to the respective properties.	Our procedures in relation to evaluating the appropriateness of valuation of investment properties included: • Assessing the judgements adopted by the management of the Group and the Valuers by comparing these estimates to entity-specific information and market data to evaluate the reasonableness of these judgements; • Evaluating the Valuer's competence, capabilities and objectivity; • Evaluating the reasonableness of adjustments made by the Valuers by reference to the similar properties relating to location and size of properties; and • Obtaining rental agreements entered into by the Group and comparing the monthly market rent adopted in the valuation to contracted monthly rent in the rental agreements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of trade debtors	
We identified the estimated impairment of trade debtors as a key audit matter due to significant judgements involved in the impairment assessment on overdue trade debtor individually. As disclosed in notes 4 and 26 to the consolidated financial statements, the trade debtors carried at HK$275,108,000 as at 31st December, 2017, which represented approximately 16.6% of the Group's total assets. Impairment loss of HK$7,487,000 was recognised in profit or loss during the year ended 31st December, 2017. In determining the impairment of trade debtors, the management considers historical settlement records, subsequent settlement and ageing analysis.	Our procedures in relation to management's estimated impairment of trade debtors included: • Evaluating the key controls by the Group on the impairment assessment on overdue trade debtors; • Checking the accuracy of ageing of the trade debtors prepared by the management against the sales invoices and credit period granted to the trade debtors on a sample basis; • Checking subsequent settlements of the trade debtors on a sample basis; and • Evaluating the reasonableness of estimates adopted by the management on the impairment assessment by comparing to the historical settlement records and subsequent settlement.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 the independent auditor's report is Ka-Lai Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28th March, 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**1,028,188**	1,255,126
Cost of sales		**(870,675)**	(1,095,052)
Gross profit		**157,513**	160,074
Other income	6	**31,307**	28,731
Other gains and losses	7	**(497,953)**	69,761
Net gain relating to the disposal of land and premises	8	**—**	1,218,783
Gain on disposal of a subsidiary	41	**29,208**	—
Distribution and selling expenses		**(29,863)**	(25,579)
Administrative expenses		**(351,318)**	(606,569)
Other expenses		**(1,015)**	(2,569)
Finance costs	9	**(4,650)**	(4,891)
Share of profit of an associate		**9,154**	6,482
Share of profit (loss) of a joint venture		**78**	(193)
(Loss) profit before tax		**(657,539)**	844,030
Income tax expense	10	**(11,408)**	(3,612)
(Loss) profit for the year	11	**(668,947)**	840,418
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**101,676**	(49,028)
Release of exchange reserve upon disposal of a subsidiary		**1,691**	—
Total comprehensive (expense) income for the year		**(565,580)**	791,390
(Loss) profit for the year attributable to:			
Owners of the Company		**(674,549)**	835,754
Non-controlling interests		**5,602**	4,664
		(668,947)	840,418
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(571,902)**	788,108
Non-controlling interests		**6,322**	3,282
		(565,580)	791,390
(Loss) earnings per share	15		
– Basic		**HK$(1.76)**	HK$2.18

Consolidated Statement of Financial Position

At 31st December, 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current Assets			
Investment properties	16	154,190	141,480
Property, plant and equipment	17	620,327	1,084,173
Prepaid lease payments	18	31,998	64,472
Deposits paid for acquisition of property, plant and equipment		1,409	1,692
Intangible assets	19	11,203	13,128
Goodwill	20	8,260	7,455
Interest in an associate	21	33,304	25,195
Interest in a joint venture	22	—	—
Loan receivable	23	—	—
Other receivables	24	787	1,400
Deferred tax assets	33	206	186
		861,684	1,339,181
Current Assets			
Inventories	25	158,224	162,882
Debtors, deposits and prepayments	26	289,178	357,449
Loan receivable	23	—	—
Other receivables	24	1,007	894
Prepaid lease payments	18	849	1,467
Derivative financial instruments	27	—	128
Tax recoverable		112	2,647
Structured deposits	28	114,911	—
Short-term bank deposits	29	22,982	555,855
Bank balances and cash	29	210,464	73,234
		797,727	1,154,556
Current Liabilities			
Creditors and accrued charges	30	416,264	424,953
Bank borrowings	31	56,687	218,857
Tax liabilities		9,846	2,347
		482,797	646,157
Net Current Assets		314,930	508,399
Total Assets less Current Liabilities		1,176,614	1,847,580

Consolidated Statement of Financial Position

At 31st December, 2017

	Notes	2017 *HK$'000*	2016 *HK$'000*
Capital and Reserves			
Share capital	32	**38,365**	38,365
Reserves		**1,106,222**	1,781,710
Equity attributable to owners of the Company		**1,144,587**	1,820,075
Non-controlling interests		**22,232**	16,517
Total Equity		**1,166,819**	1,836,592
Non-current Liabilities			
Deferred tax liabilities	33	**9,795**	10,988
		1,176,614	1,847,580

The consolidated financial statements on pages 34 to 112 were approved and authorised for issue by the Board of Directors on 28th March, 2018 and are signed on its behalf by:

Ng Hoi Ying, Michael
DIRECTOR

Ng Kim Ying
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2017

	Attributable to owners of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000* *(Note a)*	Other reserve *HK$'000* *(Note b)*	Exchange reserve *HK$'000*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1st January, 2016	38,365	113,950	(3,269)	6,103	42,681	37,261	826,819	1,061,910	17,230	1,079,140
Profit for the year	—	—	—	—	—	—	835,754	835,754	4,664	840,418
Exchange differences arising on translation of foreign operations	—	—	—	—	(46,318)	—	—	(46,318)	(1,382)	(47,700)
Exchange differences arising on translation of an associate	—	—	—	—	(1,061)	—	—	(1,061)	—	(1,061)
Exchange differences arising on translation of a joint venture	—	—	—	—	(267)	—	—	(267)	—	(267)
Total comprehensive (expense) income for the year	—	—	—	—	(47,646)	—	835,754	788,108	3,282	791,390
Dividends paid *(note 14)*	—	—	—	—	—	—	(29,158)	(29,158)	—	(29,158)
Dividend paid to non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	(548)	(548)
Acquisition of additional interests in subsidiaries	—	—	—	(785)	—	—	—	(785)	(3,447)	(4,232)
At 31st December, 2016	38,365	113,950	(3,269)	5,318	(4,965)	37,261	1,633,415	1,820,075	16,517	1,836,592
(Loss) profit for the year	—	—	—	—	—	—	(674,549)	(674,549)	5,602	(668,947)
Exchange differences arising on translation of foreign operations	—	—	—	—	96,952	—	—	96,952	720	97,672
Exchange differences arising on translation of an associate	—	—	—	—	3,797	—	—	3,797	—	3,797
Exchange differences arising on translation of a joint venture	—	—	—	—	207	—	—	207	—	207
Release of exchange reserve upon disposal of a subsidiary *(note 41)*	—	—	—	—	1,691	—	—	1,691	—	1,691
Total comprehensive income (expense) for the year	—	—	—	—	102,647	—	(674,549)	(571,902)	6,322	(565,580)
Dividends paid *(note 14)*	—	—	—	—	—	—	(103,586)	(103,586)	—	(103,586)
Dividend paid to non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	(607)	(607)
At 31st December, 2017	38,365	113,950	(3,269)	5,318	97,682	37,261	855,280	1,144,587	22,232	1,166,819

Notes:

(a) Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc. pursuant to the group reorganisation in 1996.

(b) Other reserve arose from the acquisition of additional interests in subsidiaries from non-controlling interests and the disposal of partial interests in subsidiaries to non-controlling interests and third parties without losing control.

During the year ended 31st December, 2016, the Group acquired an additional 2.4% equity interest in a non wholly-owned subsidiary, Stepper France, from a member of the management team at zero consideration. The difference of Euro ("€") 5,932 (equivalent to approximately Hong Kong dollars ("HK$") 51,013) between the zero consideration and the net assets attributable to the 2.4% equity interest in Stepper France acquired of amounting to €5,932 (equivalent to approximately HK$51,013) at the date of acquisition has been recognised directly in other reserve.

During the year ended 31st December, 2016, the Group acquired an additional 12% equity interest in a non wholly-owned subsidiary, Stepper (UK) Limited, from a member of the management team at a cash consideration of British Pound Sterling ("£") 330,970 (equivalent to approximately HK$3,385,819). The difference of £81,765 (equivalent to approximately HK$836,451) between the cash consideration paid and the net assets attributable to the 12% equity interest in Stepper (UK) Limited acquired of amounting to £249,205 (equivalent to approximately HK$2,549,368) at the date of acquisition has been recognised directly in other reserve.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2017

	Notes	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before tax		(657,539)	844,030
Adjustments for:			
Finance costs		4,650	4,891
Release of prepaid lease payments		1,359	1,648
Depreciation of property, plant and equipment		190,247	147,979
Amortisation of intangible assets		1,930	1,920
Allowance for inventories		2,599	1,099
Allowance for doubtful debts		7,487	3,003
Impairment loss of property, plant and equipment	17	491,155	—
Impairment loss of prepaid lease payments	18	18,845	—
Impairment loss of trademark	19	1,700	820
Impairment loss of investment in a joint venture	22	285	4,666
Impairment loss of loan receivable	23	—	1,260
Interest income		(12,344)	(3,309)
Net (gain) loss on disposal of property, plant and equipment		(136)	115
Increase in fair values of investment properties		(12,710)	(630)
Decrease (increase) in fair values of derivative financial instruments		131	(164)
Net gain relating to the disposal of land and premises		—	(1,218,783)
Gain on disposal of a subsidiary		(29,208)	—
Imputed interest income on other receivables		(214)	(251)
Share of profit of an associate		(9,154)	(6,482)
Share of (profit) loss of a joint venture		(78)	193
Operating cash flows before movements in working capital		(995)	(217,995)
Decrease in inventories		11,707	28,621
Decrease (increase) in debtors, deposits and prepayments		62,390	(14,738)
Decrease in creditors, deposit received and accrued charges		(24,447)	(112,541)
Cash generated from (used in) operations		48,655	(316,653)
Income taxes paid		(2,587)	(4,382)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		46,068	(321,035)

Consolidated Statement of Cash Flows

For the year ended 31st December, 2017

	Notes	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(141,163)	(398,518)
Addition to prepaid lease payments		—	(3,849)
Acquisition of additional interests in subsidiaries		—	(4,232)
Acquisition of additional interest in a joint venture	22	—	(201)
Net proceeds received relating to the disposal of land and premises		—	1,064,443
Expenses relating to the disposal of land and premises		—	(41,353)
Net proceed from disposal of a subsidiary	41	51,717	—
Proceeds from disposal of property, plant and equipment		261	2,173
Interest received		12,344	3,309
Investment in structured deposits		(113,430)	—
Dividend received from a joint venture		—	99
Dividend received from an associate		4,225	—
Deposits paid for acquisition of property, plant and equipment		(1,099)	(1,486)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(187,145)	620,385
FINANCING ACTIVITIES			
Proceeds from disposal of partial interests in subsidiaries without losing control		1,007	4,807
Dividends paid to owners of the Company		(103,586)	(29,158)
Dividend paid to non-controlling shareholders of a subsidiary		(607)	(548)
Interest paid		(4,650)	(4,891)
New bank borrowings raised		44,550	424,057
Repayments of bank borrowings		(206,720)	(273,893)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(270,006)	120,374
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(411,083)	419,724
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		629,089	217,900
Effect of foreign exchange rate changes		15,440	(8,535)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by		233,446	629,089
Short-term bank deposits		22,982	555,855
Bank balances and cash		210,464	73,234
		233,446	629,089

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

1. GENERAL

Arts Optical International Holdings Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company is an investment holding company. The principal activities of the Company and its principal subsidiaries (the "Group") are set out in note 42.

The consolidated financial statements are presented in Hong Kong dollars, which is different from the functional currency of the Company, which is United States dollars, as directors of the Company (the "Directors") consider that Hong Kong dollars is the most appropriate presentation currency in view of its place of listing.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 36. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised to HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1st January, 2018
[2] Effective for annual periods beginning on or after 1st January, 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1st January, 2021

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 *Financial Instruments: Recognition and Measurement*. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31st December, 2017, the Directors anticipate the following potential impacts on initial application of HKFRS 9:

Classification and measurement:

- Debt instruments classified as loans and receivables carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments (continued)

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1st January, 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on debtors. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1st January, 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

The management of the Group anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the management of the Group do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 Leases (continued)

As at 31st December, 2017, the Group has non-cancellable operating lease commitments of HK$4,221,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$164,000 and refundable rental deposits received of HK$832,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Except those mentioned above, the Directors anticipate that the application of other new and revised HKFRSs and Interpretations will have no material impact on the consolidated financial statements in foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties, structured deposits and derivative financial instruments that are measured at fair values at the end of the reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment on Assets*.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

A cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture are described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill and intangible asset, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including any directly and indirectly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than buildings under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the other gains and losses line item. Fair value is determined in the manner described in note 35.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including debtors, loan receivable, other receivables, loan to a joint venture, short-term bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities (including creditors and accrued charges, and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from '(loss) profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries and an associate, and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates or joint ventures.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs and termination benefits (continued)

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolio and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the Directors have determined the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Valuation of investment properties

Investment properties are carried in the consolidated statement of financial position at 31st December, 2017 at their fair values, details of which are disclosed in note 16. The fair value of the investment properties was determined by reference to valuations conducted on these properties by an independent firm of qualified professional valuers using income capitalisation approach. Property valuation techniques involve certain key inputs, such as reversion yield, monthly market rent and contracted monthly rent. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties and corresponding adjustments to the changes in fair value reported in the consolidated statement of profit or loss and other comprehensive income and the carrying amount of these properties included in the consolidated statement of financial position. The carrying amount of Group's investments properties at 31st December, 2017 was HK$154,190,000 (2016: HK$141,480,000).

Estimated impairment of property, plant and equipment and prepaid lease payments

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Prepaid lease payments are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Property, plant and equipment and prepaid lease payments are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets of which key assumptions include discount rates, sales growth rate and margin. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying values are written down to the recoverable amount and the amount of the write-down is charged against the results of operations. As at 31st December, 2017, the carrying value of the property, plant and equipment and prepaid lease payments were approximately HK$620,327,000 and HK$32,847,000 respectively and impairment loss of approximately HK$491,155,000 and HK$18,845,000 respectively were recognised during the year ended 31st December 2017. Details of the recoverable amount calculation are disclosed in notes 17 and 18 respectively.

Estimated impairment of intangible assets

Determining whether intangible assets (i.e. trademark and customer relationships) are impaired requires an estimation of the recoverable amount of these intangible assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2017, the carrying amount of the Group's intangible assets was HK$11,203,000 (2016: HK$13,128,000). Details of the recoverable amount calculation are disclosed in note 19.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31st December, 2017, the carrying amount of goodwill was HK$8,260,000 (2016: HK$7,455,000). Details of the recoverable amount calculation are disclosed in note 20.

Estimated impairment of trade debtors

The management has properly designed and implemented on the impairment assessment of trade debtors by checking and reviewing the ageing of the trade debtors, historical settlement and the subsequent settlement. When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the actual future cash flows are less than expected, or being revised downward due to changes in the facts and circumstances, a material impairment loss may arise. As at 31st December, 2017, the carrying amount of trade debtors was HK$275,108,000, net of allowance for doubtful debts of HK$51,002,000 (2016: HK$348,087,000, net of allowance for doubtful debts of HK$43,547,000). Details of which are disclosed in note 26.

Determination of net realisable value of inventories

The cost of inventories is written down to net realisable value when the cost of inventories is not recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. Also, the cost of inventories may not be recoverable if the estimated costs to be incurred to make the sale have increased. When the net realisable value of an item of inventory is less than the carrying amount, the excess is written down immediately in the consolidated statement of profit or loss and other comprehensive income. As at 31st December, 2017, the carrying amount of inventories was HK$158,224,000, net of allowance for inventories of HK$68,812,000 (2016: HK$162,882,000, net of allowance for inventories of HK$66,102,000).

Income taxes

As at 31st December, 2017, no deferred tax asset has been recognised on the tax losses of HK$518,375,000 (2016: HK$442,796,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

5. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on geographical markets, based on the location of customers. Thus, the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment:

For the year ended 31st December, 2017

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	556,438	298,745	131,539	41,466	1,028,188
Result					
Segment (loss) profit	(12,324)	(22,281)	(8,418)	1,312	(41,711)
Unallocated income and gains					25,290
Unallocated corporate expenses and losses					(687,252)
Gain on disposal of a subsidiary					29,208
Interest income on bank deposits					12,344
Finance costs					(4,650)
Share of profit of an associate					9,154
Share of profit of a joint venture					78
Loss before tax					(657,539)

5. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the year ended 31st December, 2016

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	765,819	343,105	121,080	25,122	1,255,126
Result					
Segment (loss) profit	(21,727)	(26,969)	(1,665)	2,531	(47,830)
Unallocated income and gains					82,429
Unallocated corporate expenses and losses					(414,059)
Net gain relating to the disposal of land and premises					1,218,783
Interest income on bank deposits					3,309
Finance costs					(4,891)
Share of profit of an associate					6,482
Share of loss of a joint venture					(193)
Profit before tax					844,030

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 3. Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, economic compensation, interest income, property rental income, net foreign exchange gains, increase in fair values of investment properties, finance costs, net gain relating to the disposal of land and premises, gain on disposal of a subsidiary, share of profit of an associate, share of profit or loss of a joint venture as well as impairment losses of investment in a joint venture, and property, plant and equipment, and prepaid lease payments. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Total segment assets and liabilities are not disclosed as they are not regularly reviewed by the chief operating decision maker.

5. SEGMENT INFORMATION (continued)

Other segment information

2017

Amounts included in the measure to segment (loss) profit:

	Europe *HK$'000*	**United States** *HK$'000*	**Asia** *HK$'000*	**Other regions** *HK$'000*	**Adjustments** *HK$'000* *(Note)*	**Consolidated** *HK$'000*
Depreciation of property, plant and equipment	**13,589**	**9,376**	**2,657**	**69**	**164,556**	**190,247**
Allowance for (write back of) doubtful debts	**3,201**	**4,665**	**28**	**(407)**	**—**	**7,487**
Allowance for inventories	**—**	**—**	**1,821**	**778**	**—**	**2,599**

2016

Amounts included in the measure to segment (loss) profit:

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Adjustments *HK$'000* *(Note)*	Consolidated *HK$'000*
Depreciation of property, plant and equipment	21,891	10,989	2,566	23	112,510	147,979
(Write back of) allowance for doubtful debts	(2,556)	5,070	52	437	—	3,003
Allowance for inventories	1,061	38	—	—	—	1,099

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit and not allocated to any operating and reportable segment included net gain/loss on disposal of property, plant and equipment and release of prepaid lease payments, which are set out in notes 7 and 11 respectively.

Note: The reconciling items are to adjust expenditure for the Group head office's corporate assets, which are not included in segment information.

5. SEGMENT INFORMATION (continued)

Geographical information

Information about the Group's revenue is presented based on the location of the external customers. Information about the Group's non-current assets other than loan receivable, other receivables and deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers *Year ended*		Non-current assets	
	2017 ***HK$'000***	2016 *HK$'000*	**2017** ***HK$'000***	2016 *HK$'000*
Hong Kong	**—**	—	**191,918**	180,796
The People's Republic of China (excluding Hong Kong) (the "PRC")	**—**	—	**614,111**	1,109,544
United States	**298,745**	343,105	**2,160**	3,860
Italy	**365,305**	561,483	**33,304**	25,195
Other countries	**364,138**	350,538	**19,198**	18,200
	1,028,188	1,255,126	**860,691**	1,337,595

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Customer A[1]	**121,720**	139,470
Customer B[2]	**108,596**	166,611
Customer C[2]	**N/A[3]**	158,176

1 Revenue from the United States
2 Revenue from the Europe
3 The revenue from this customer did not contribute over 10% of the total revenue of the Group.

6. OTHER INCOME

	2017 *HK$'000*	2016 *HK$'000*
Included in other income are:		
Sales of scrap materials	3,919	4,290
Sales of construction materials	904	6,073
Compensation from customers	5,745	3,960
Interest income on bank deposits	12,344	3,309
Gross rental income from investment properties	3,640	2,968
Government subsidy	1,145	5,311

7. OTHER GAINS AND LOSSES

	2017 *HK$'000*	2016 *HK$'000*
Net foreign exchange gains	8,804	78,831
Net gain (loss) on disposal of property, plant and equipment	136	(115)
Allowance for doubtful debts, net	(7,487)	(3,003)
Increase in fair values of investment properties	12,710	630
(Decrease) increase in fair values of derivative financial instruments	(131)	164
Impairment loss of property, plant and equipment *(note 17)*	(491,155)	—
Impairment loss of prepaid lease payments *(note 18)*	(18,845)	—
Impairment loss of trademark *(note 19)*	(1,700)	(820)
Impairment loss of investment in a joint venture *(note 22)*	(285)	(4,666)
Impairment loss of loan receivable *(note 23)*	—	(1,260)
	(497,953)	69,761

8. NET GAIN RELATING TO THE DISPOSAL OF LAND AND PREMISES

Pursuant to the relocation agreement, supplemental agreement and second supplemental agreement to the relocation agreement (collectively the "Agreements"), details of which are disclosed in the Company's announcements dated 19th August, 2014, 8th October, 2014, 13th October, 2015, 3rd May, 2016, 30th December, 2016 and circular dated 19th September, 2014, a wholly-owned subsidiary of the Company ("Argent") has agreed to dispose of its interest in Argent Urban Renewal Project (the "Disposal") for a consideration of Renminbi ("RMB") 1,579,700,000 (equivalent to approximately HK$1,767,052,000) subject to the fulfillment of the condition precedent as set out in the relocation agreement.

During the year ended 31st December, 2016, all parties to the Agreements have fulfilled their respective remaining responsibilities under the Agreements. Accordingly, the Disposal has completed and a net gain on the Disposal amounted to HK$1,218,783,000 was recognised.

The following is an analysis of the net gain on the Disposal recognised during the year ended 31st December, 2016:

	HK$'000
Consideration received	
– during the year ended 31st December, 2014 (RMB577,000,000)	645,432
– during the year ended 31st December, 2016 (RMB1,002,700,000)	1,121,620
	1,767,052
Less: Tax expenses arising from the Disposal	(381,666)
Consultation service fee	(41,295)
Carrying values of buildings and leasehold improvements *(note 17)*	(117,141)
Carrying values of prepaid lease payments *(note 18)*	(8,109)
Other professional fee arising on the Disposal	(58)
Net gain on the Disposal	1,218,783

In addition to the above, consultation service and other relevant expenses relating to the Disposal amounted to HK$112,527,000 and HK$15,815,000 were incurred and recognised in profit or loss during the years ended 31st December, 2014 and 2015, respectively.

9. FINANCE COSTS

	2017 *HK$'000*	2016 *HK$'000*
Interests on bank borrowings	**4,650**	4,891

10. INCOME TAX EXPENSE

	2017 *HK$'000*	2016 *HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	3,422	2,041
– Overprovision in respect of prior year	(40)	(20)
	3,382	2,021
PRC Enterprise Income Tax		
– Current year	7,480	268
– (Over)underprovision in respect of prior year	(497)	2
	6,983	270
United Kingdom Corporation Tax		
– Current year	1,881	1,762
France Corporation Tax		
– Current year	355	673
Deferred taxation *(note 33)*		
– Current year	(1,193)	(1,114)
	11,408	3,612

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

United Kingdom Corporation Tax is calculated at the applicable rate of 19% (2016: 20%) in accordance with the relevant law and regulations in the United Kingdom.

France Corporation Tax is calculated at the applicable rate of 33.33% in accordance with the relevant law and regulations in France for both years.

10. INCOME TAX EXPENSE (continued)

Income tax expense for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 *HK$'000*	2016 *HK$'000*
(Loss) profit before tax	(657,539)	844,030
Tax at Hong Kong Profits Tax rate of 16.5%	(108,494)	139,265
Tax effect of share of profit of an associate	(1,510)	(1,070)
Tax effect of share of (profit) loss of a joint venture	(13)	32
Tax effect of expenses not deductible for tax purpose	144	862
Tax effect of income not taxable for tax purpose	(3,991)	(108,805)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis *(Note)*	51,612	(70,080)
Overprovision in respect of prior year	(537)	(18)
Tax effect of tax losses not recognised	14,492	49,699
Tax effect of other deductible temporary differences not recognised	59,269	438
Utilisation of tax losses previously not recognised	(2,021)	(758)
Utilisation of deductible temporary differences previously not recognised	(207)	(4,313)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,971	741
Others	(307)	(2,381)
Income tax expense for the year	11,408	3,612

Note: In relation to 50:50 apportionment basis, a portion of the Group's profits is deemed under Hong Kong Profits Tax neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the Directors, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both years.

11. (LOSS) PROFIT FOR THE YEAR

	2017 HK$'000	2016 HK$'000
(Loss) profit for the year has been arrived at after charging:		
Amortisation of intangible assets	1,930	1,920
Auditor's remuneration		
– Audit service	1,450	1,830
– Non-audit services	631	590
Cost of inventories recognised as an expense (included allowance for inventories of HK$2,599,000 (2016: HK$1,099,000))	870,675	1,095,052
Depreciation of the property, plant and equipment	190,247	147,979
Operating lease rentals in respect of rented premises	2,485	3,074
Release of prepaid lease payments	1,359	1,648
Staff costs:		
Directors' emoluments *(note 12)*	3,388	3,792
Other staff		
– Salaries and other allowances	453,229	566,234
– Contributions to retirement benefit schemes	36,904	40,261
– Economic compensation *(Note)*	—	285,212
Total staff costs	493,521	895,499
and after crediting:		
Gross rental income from investment properties	3,640	2,968
Less: Direct expenses of investment properties that generated rental income during the year	(774)	(690)
	2,866	2,278

Note: During the year ended 31st December, 2016, net economic compensation expense of HK$285,212,000 for past service of the employees of the Group was charged to profit or loss as part of administrative expenses.

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the six (2016: six) directors were as follows:

		Other emoluments		
	Fee	Salaries and other benefits	Contributions to retirement benefits scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2017				
Executive directors:				
Mr. Ng Hoi Ying, Michael	**—**	**1,420**	**65**	**1,485**
Mr. Ng Kim Ying	**—**	**435**	**20**	**455**
Mr. Lee Wai Chung (resigned on 30th June, 2017)	**—**	**976**	**40**	**1,016**
	—	**2,831**	**125**	**2,956**
Independent non-executive directors:				
Mr. Wong Chi Wai	**144**	**—**	**—**	**144**
Mr. Chung Hil Lan Eric	**144**	**—**	**—**	**144**
Mr. Lam Yu Lung	**144**	**—**	**—**	**144**
	432	**—**	**—**	**432**
Total emoluments	**432**	**2,831**	**125**	**3,388**
2016				
Executive directors:				
Mr. Ng Hoi Ying, Michael	—	1,300	60	1,360
Mr. Ng Kim Ying	—	195	10	205
Mr. Lee Wai Chung	—	1,716	79	1,795
	—	3,211	149	3,360
Independent non-executive directors:				
Mr. Wong Chi Wai	144	—	—	144
Mr. Chung Hil Lan Eric	144	—	—	144
Mr. Lam Yu Lung	144	—	—	144
	432	—	—	432
Total emoluments	432	3,211	149	3,792

Note: The executive directors' emoluments shown above were for their services in connection with their services as directors of the Company. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2016: two) executive directors, details of whose emoluments are set out in note 12 above. Details of the emoluments for the year of the remaining four (2016: three) highest paid employees who are not director of the Company are as follows:

	2017 *HK$'000*	2016 *HK$'000*
Salaries and other benefits	**4,191**	3,079
Performance related incentive bonus	**303**	332
Contributions to retirement benefits scheme	**304**	467
Termination benefits	**931**	1,476
	5,729	5,354

The number of the highest paid employees who are not the executive directors of the Company whose emoluments fell within the following bands is as follows:

	2017 *No. of employees*	2016 *No. of employees*
HK$1,000,001 to HK$1,500,000	**3**	2
HK$1,500,001 to HK$2,000,000	**1**	—
HK$2,000,001 to HK$2,500,000	**—**	1
	4	3

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

14. DIVIDENDS

	2017 *HK$'000*	2016 *HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
First special dividend paid of 2.0 HK cents in respect of 2017 (2016: 3.8 HK cents in respect of 2016) per share	**7,673**	14,579
Second special dividend paid of 25.0 HK cents in respect of 2016 (2016: 3.8 HK cents in respect of 2015) per share	**95,913**	14,579
	103,586	29,158

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31st December, 2017, has been proposed by the Directors (2016: nil).

15. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2017 *HK$'000*	2016 *HK$'000*
(Loss) earnings for the purpose of basic (loss) earnings per share – (Loss) profit for the year attributable to owners of the Company	**(674,549)**	835,754

	Number of shares	
Number of shares for the purpose of basic (loss) earnings per share	**383,650,000**	383,650,000

No diluted (loss) earnings per share has been presented as there was no potential ordinary shares in issue during 2017 and 2016.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2016	140,850
Increase in fair value recognised in profit or loss	630
At 31st December, 2016	141,480
Increase in fair value recognised in profit or loss	12,710
At 31st December, 2017	154,190

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

In determining the fair value of investment properties, it is the Group's policy to engage an independent firm of qualified professional valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation technique and key inputs to the model.

On 31st December, 2017 and 31st December, 2016, independent valuations were undertaken by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers not connected to the Group which has appropriate professional qualifications and recent experience in the valuation of similar properties in the neighbourhood.

16. INVESTMENT PROPERTIES (continued)

The valuations have been arrived at using income capitalisation approach. The valuations have been arrived by capitalising the market rentals of all lettable units of the properties by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the reversion yield and monthly market rent and contracted monthly rent of similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The following table gives information about how the fair values of the Group's investment properties as at 31st December, 2017 and 31st December, 2016 are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Sensitivity
Investment properties in Hong Kong	Level 3	Income capitalisation approach		
		The key inputs are		
		(1) Reversion yield	Reversion yield, taking into account of the capitalisation of rental income potential, nature of the property and prevailing market condition, ranging from 2.7% to 3.5% (2016: 3.1% to 3.5%) per annum.	A slight increase in the reversion yield used would result in a significant decrease in the fair value measurement of the investment properties, and vice versa.
		(2) Monthly market rent	Monthly market rent, taking into account of time, location and individual factors such as frontage and size, between the comparable and the property, ranging from HK$25.0 to HK$26.86 (2016: HK$21.0 to HK$26.86) per square foot per month on lettable area basis for the office portion of the property and ranging from HK$3,000 to HK$3,200 (2016: HK$2,800 to HK$3,200) per car parking space per month for the car parking space portion of the property.	A slight increase in the monthly market rent used would result in a significant increase in the fair value measurement of the investment properties, and vice versa.

The fair values of all investment properties at 31st December, 2017 and 31st December, 2016 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy. There were no transfers into or out of Level 3 during the year.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Buildings under construction HK$'000	Total HK$'000
COST								
At 1st January, 2016	37,509	808,141	363,771	831,519	93,892	11,757	77,776	2,224,365
Exchange realignment	—	(14,936)	(31,748)	(46,499)	(9,626)	(814)	1,500	(102,123)
Additions	—	25,484	251,513	28,088	12,250	1,232	93,924	412,491
Disposals *(Note)*	—	(259,044)	(107,493)	(69,954)	(53,091)	(1,328)	—	(490,910)
Reclassification	—	99,246	32,940	—	—	—	(132,186)	—
At 31st December, 2016	37,509	658,891	508,983	743,154	43,425	10,847	41,014	2,043,823
Exchange realignment	—	41,148	52,823	49,352	2,680	771	3,399	150,173
Additions	—	906	131,818	4,783	2,752	110	1,982	142,351
Disposals	—	—	—	(22,705)	(29)	(273)	—	(23,007)
Disposal of a subsidiary *(note 41)*	—	(477)	—	—	—	—	—	(477)
Reclassification	—	6,188	38,186	—	—	—	(44,374)	—
At 31st December, 2017	37,509	706,656	731,810	774,584	48,828	11,455	2,021	2,312,863
DEPRECIATION AND AMORTISATION								
At 1st January, 2016	4,774	210,071	195,996	746,179	85,282	9,126	—	1,251,428
Exchange realignment	—	955	(16,523)	(43,181)	(8,927)	(600)	—	(68,276)
Provided for the year	1,039	32,371	73,284	35,469	4,867	949	—	147,979
Eliminated on disposals *(Note)*	—	(146,203)	(103,193)	(68,280)	(52,637)	(1,168)	—	(371,481)
At 31st December, 2016	5,813	97,194	149,564	670,187	28,585	8,307	—	959,650
Exchange realignment	—	6,518	20,881	44,803	1,648	579	—	74,429
Provided for the year	1,040	27,203	130,306	25,691	5,089	918	—	190,247
Impairment loss recognised in profit or loss	—	263,652	195,671	25,938	5,443	451	—	491,155
Eliminated on disposals	—	—	—	(22,662)	(21)	(199)	—	(22,882)
Eliminated on disposal of a subsidiary *(note 41)*	—	(63)	—	—	—	—	—	(63)
At 31st December, 2017	6,853	394,504	496,422	743,957	40,744	10,056	—	1,692,536
CARRYING VALUES								
At 31st December, 2017	30,656	312,152	235,388	30,627	8,084	1,399	2,021	620,327
At 31st December, 2016	31,696	561,697	359,419	72,967	14,840	2,540	41,014	1,084,173

Note: During the year ended 31st December, 2016, buildings with carrying values of HK$112,841,000 and leasehold improvements with carrying values of HK$4,300,000, totalling HK$117,141,000 were directly related to the Disposal and disposed of. Details of the Disposal are disclosed in note 8.

17. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, except for buildings under construction, are depreciated on a straight-line basis at the following useful lives:

Leasehold land	Over the remaining term of the leases
Buildings	Over the estimated useful lives of 25 to 30 years or the lease term of the land on which the buildings are located, if shorter
Leasehold improvements	Over the estimated useful lives of 3 to 5 years or the term of the lease, if shorter
Plant and machinery and motor vehicles	Over 5 years
Furniture, fixtures and office equipment	Over 3 to 5 years

At 31st December, 2017, leasehold land with carrying value of HK$30,656,000 (2016: HK$31,696,000) is situated in Hong Kong and held under a finance lease.

The Group performed substantially below budget due to decrease in sales orders from certain key customers. In the 4th quarter of year 2017, the management of the Group considered there were impairment indicators and hence conducted an impairment assessment on the relevant property, plant and equipment and prepaid lease payments, which constitutes an individual cash-generating unit ("CGU") of manufacturing and distribution business for the purpose of impairment assessment. The recoverable amounts of the respective CGU have been determined at higher of fair value less costs of disposal and value in use of the property, plant and equipment and prepaid lease payments to which the relevant assets belong to. The value in use calculations were based on the cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, in which 15.9% and 7.95% sales growth rate in first two years and subsequent three years, respectively. The cash flows beyond the 5-year period are extrapolated up to the end of the relevant useful lives of the building fixtures with zero growth rate, and at a discount rate of 14.1% which was provided by an independent professional appraiser.

Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the future changes in the market. Accordingly, an impairment loss of HK$491,155,000 and HK$18,845,000 respectively has been recognised in respect of property, plant and equipment and prepaid lease payments respectively, of the Group, which has been allocated to the buildings, leasehold improvements, plant and machinery, furniture, fixtures and office equipment and motor vehicles of property, plant and equipment as well as prepaid lease payments.

The Group is in the process of obtaining the property ownership certificates in respect of certain buildings located in the PRC with carrying value of HK$195,956,000 at 31st December, 2017 (2016: HK$368,016,000).

18. PREPAID LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
Analysed for reporting purposes as:		
Current asset	849	1,467
Non-current asset	31,998	64,472
	32,847	65,939

The Group is in the process of obtaining the land use right certificates in respect of certain leasehold land located in the PRC with carrying value of HK$21,833,000 at 31st December, 2017 (2016: HK$39,643,000).

During the year ended 31st December, 2016, prepaid lease payments with carrying values of HK$8,109,000 were directly related to the Disposal and disposed of. Details of the Disposal are disclosed in note 8.

During the year ended 31st December, 2017, the Group has recognised an impairment loss of HK$18,845,000. Details of the impairment are disclosed in note 17.

19. INTANGIBLE ASSETS

	Trademark HK$'000	Customer relationships HK$'000	Total HK$'000
COST			
At 1st January, 2016	4,680	14,090	18,770
Exchange realignment	—	(1,822)	(1,822)
At 31st December, 2016	4,680	12,268	16,948
Exchange realignment	—	1,527	1,527
At 31st December, 2017	4,680	13,795	18,475
AMORTISATION AND IMPAIRMENT			
At 1st January, 2016	—	2,038	2,038
Provided for the year	—	1,325	1,325
Impairment loss recognised in profit or loss	820	—	820
Exchange realignment	—	(363)	(363)
At 31st December, 2016	820	3,000	3,820
Provided for the year	—	1,313	1,313
Impairment loss recognised in profit or loss	1,700	—	1,700
Exchange realignment	—	439	439
At 31st December, 2017	2,520	4,752	7,272
CARRYING VALUES			
At 31st December, 2017	2,160	9,043	11,203
At 31st December, 2016	3,860	9,268	13,128

19. INTANGIBLE ASSETS (continued)

The following useful lives are used in the calculation of amortisation:

Trademark	indefinite
Customer relationships	straight-line basis over 10 years

The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 10 years.

Trademark purchased from an independent third party in 2006 is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. The Group identifies the business operated with the trademark as an individual CGU of selling a specific brand of prescription frames and sunglasses. Particulars of the impairment testing are disclosed below.

The recoverable amount of the trademark has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculation uses cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years, and at a discount rate of 14% (2016: 14%). The cash flows beyond the 5-year period are extrapolated using a 0% (2016: 0%) growth rate. Cash flow projections during the budget period for the trademark are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

Based on the discounted cash flow projections, the recoverable amount of the trademark is estimated to be less than its carrying amount. Accordingly, the management of the Group determined that an impairment loss on trademark of HK$1,700,000 (2016: HK$820,000) is recognised in profit or loss for the year ended 31st December, 2017.

20. GOODWILL

	HK$'000
COST	
At 1st January, 2016	8,979
Exchange realignment	(1,524)
At 31st December, 2016	7,455
Exchange realignment	805
At 31st December, 2017	8,260
IMPAIRMENT	
At 1st January, 2016, 31st December, 2016 and 31st December, 2017	—
CARRYING VALUES	
At 31st December, 2017	8,260
At 31st December, 2016	7,455

20. GOODWILL (continued)

Goodwill arising from the acquisition of a non wholly-owned subsidiary which is engaged in trading in prescription frames and sunglasses in United Kingdom. The Group identifies the business operated by the non wholly-owned subsidiary as an individual CGU. Particulars of impairment testing on goodwill are disclosed below.

The recoverable amount of the CGU has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculation uses cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years, and at a discount rate of 14% (2016: 14%). The cash flows beyond the 5-year period are extrapolated using a 0% (2016: 0%) growth rate. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management of the Group believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregated recoverable amount of CGU.

The goodwill was tested for impairment at the end of each reporting period by comparing the carrying amount of the CGU with the recoverable amount of the CGU. The management of the Group determined that there is no impairment loss for both years.

21. INTEREST IN AN ASSOCIATE

Details of the Group's interest in an associate are as follows:

	2017 *HK$'000*	2016 *HK$'000*
Cost of investment in an associate *(Notes)*		
− Unlisted	**26,461**	26,461
− Amortisation of intangible asset	**(2,092)**	(1,475)
− Exchange realignment	**(1,019)**	(1,913)
	23,350	23,073
Share of post-acquisition profit or loss and other comprehensive income	**9,954**	2,122
	33,304	25,195

21. INTEREST IN AN ASSOCIATE (continued)

Notes:

(1) Breakdown of cost of investment

	HK$'000
Share of 50% interest in net assets	17,116
Intangible asset – customer relationships	7,214
Goodwill	2,131
	26,461

(2) Movement of intangible asset – customer relationships

	HK$'000
At 1st January, 2016	5,050
Amortisation recognised in profit or loss	(595)
Exchange realignment	(168)
At 31st December, 2016	4,287
Amortisation recognised in profit or loss	(617)
Exchange realignment	633
At 31st December, 2017	4,303

The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 10 years.

(3) Movement of goodwill

	HK$'000
At 1st January, 2016	1,738
Exchange realignment	(68)
At 31st December, 2016	1,670
Exchange realignment	261
At 31st December, 2017	1,931

Goodwill arising from the acquisition of an associate which is engaged in manufacture of and trading in prescription frames and sunglasses. The Group identifies the business operated as an individual CGU.

21. INTEREST IN AN ASSOCIATE (continued)

The Group's trade debtor balance and trade creditor balance due from/to the associate are disclosed in notes 26 and 30 respectively.

Details of the associate at the end of the reporting period are as follow:

Name of associate	Form of business structure	Place of incorporation/ registration and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activity
				2017	2016	2017	2016	
Trenti Industria Occhiali S.r.l. ("Trenti")	Incorporated	Italy	Ordinary	50%	50%	50%	50%	Manufacture of and trading in prescription frames and sunglasses

The above interest in an associate is held through a wholly-owned subsidiary of the Company.

The Group holds 50% of the issued share capital of Trenti. However, under the agreement, the other shareholders control the composition of the board of directors of Trenti and have control over Trenti. The Directors consider that the Group does have significant influence over Trenti and it is therefore classified as an associate of the Group.

Summarised financial information in respect of the Group's associate prepared in accordance with HKFRSs is set out below. The associate is accounted for using the equity method in the consolidated financial statements.

	2017 *HK$'000*	2016 *HK$'000*
Current assets	107,340	99,178
Non-current assets	22,494	8,718
Current liabilities	(79,224)	(72,950)
Net assets	50,610	34,946

	2017 *HK$'000*	2016 *HK$'000*
Income recognised in profit or loss	208,842	178,124
Expenses recognised in profit or loss	190,534	165,160
Other comprehensive income (expense) – exchange reserve	5,806	(1,650)
Dividend received from the associate during the year	4,225	—

21. INTEREST IN AN ASSOCIATE (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017	2016
	HK$'000	*HK$'000*
Net assets of the associate	**50,610**	34,946
Proportion of the Group's interest in the associate	**50%**	50%
Net assets of the associate attributable to the Group's interest	**25,305**	17,473
Goodwill	**1,931**	1,670
Intangible asset	**4,303**	4,287
Other adjustments	**1,765**	1,765
Carrying amount of the Group's interest in the associate	**33,304**	25,195

22. INTEREST IN A JOINT VENTURE

	2017	2016
	HK$'000	*HK$'000*
Cost of unlisted investment in a joint venture *(Note)*	**1,041**	1,041
Share of post-acquisition profit or loss and other comprehensive income (expense)	**196**	(89)
	1,237	952
Loan to a joint venture	**3,714**	3,714
	4,951	4,666
Impairment loss recognised in profit or loss	**(4,951)**	(4,666)
	—	—

Note: During the year ended 31st December, 2012, the Group acquired 25% interest in a joint venture at a cash consideration of approximately HK$1,017,000. During the year ended 31st December, 2016, the Group further acquired 2% interest in the joint venture at a cash consideration of approximately HK$24,000. Goodwill of HK$708,000 brought forward is included in the cost of investment in a joint venture.

The loan to the joint venture of HK$3,714,000 (2016: HK$3,714,000) included in the Group's non-current assets is unsecured, carries interest at 0.01% per annum and not repayable within one year from the end of the reporting period.

The Group's trade receivable balance due from the joint venture is disclosed in note 26.

22. INTEREST IN A JOINT VENTURE (continued)

Details of the joint venture at the end of the reporting period are as follow:

Name of joint venture	Form of business structure	Place of incorporation/ registration and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activity
				2017	2016	2017	2016	
廣州佳視美光學眼鏡有限公司 (known as "Guangzhou Jiashimei Optical Company Limited")	Incorporated	PRC	Ordinary	27%	27%	27%	27%	Trading in prescription frames and sunglasses

The above investment in a joint venture is held through a wholly-owned subsidiary of the Company.

In terms of a contractual agreement drawn up and signed among all shareholders of Guangzhou Jiashimei Optical Company Limited, all decisions on financial policies must be agreed by unanimous consent among all shareholders of the entity. Accordingly, there is a contractual sharing of control over Guangzhou Jiashimei Optical Company Limited and the investment in that entity is accounted for by the Group as an interest in a joint venture.

Summarised financial information in respect of the Group's joint venture prepared in accordance with HKFRSs is set out below. The joint venture is accounted for using the equity method in the consolidated financial statements.

	2017 HK$'000	2016 HK$'000
Current assets	18,474	17,504
Non-current assets	32	50
Current liabilities	(2,572)	(2,677)
Non-current liabilities	(13,810)	(13,810)
Net assets	2,124	1,067

	2017 HK$'000	2016 HK$'000
Income recognised in profit or loss	10,146	6,907
Expenses recognised in profit or loss	(9,857)	(7,655)
Other comprehensive income (expense) – exchange reserve	768	(964)
Dividend received from the joint venture during the year	—	99

22. INTEREST IN A JOINT VENTURE (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2017 HK$'000	2016 HK$'000
Net assets of the joint venture	2,124	1,067
Proportion of the Group's interest in the joint venture	27%	27%
Net assets of the joint venture attributable to the Group's interest	573	288
Goodwill	708	708
	1,281	996
Loan	3,714	3,714
Other adjustments	(44)	(44)
	4,951	4,666
Impairment loss recognised in profit or loss	(4,951)	(4,666)
Carrying amount of the Group's interest in the joint venture	—	—

At 31st December, 2016, in view of the operating loss resulted from the joint venture, its financial status and prevailing market conditions, the management of the Group has performed a review on impairment on the carrying value of its interest in the joint venture by comparing its recoverable amount with its carrying value. The joint venture reported net loss and a significant decline in revenue for the year ended 31st December, 2016 which constitute impairment indicators.

The recoverable amount of the joint venture has been determined on the basis of value in use calculations. The recoverable amount is based on certain key assumptions. In determining the value in use of the interest in the joint venture, the management of the Group estimated the present value of the estimated future cash flows comprising expected dividend income from the joint venture and expected ultimate disposal, by using a discount rate to discount the cash flow projections to net present value. The future cash flows from the expected ultimate disposal is calculated with reference to the expected return from the joint venture. The management of the Group reviewed the recoverable amount of the joint venture after take into account of the weak prevailing market conditions and the continuing downward trend of the joint venture's profitability. The management of the Group estimated that there is a significant decline in the present value of the estimated future cash flows comprising expected dividend income from the joint venture.

The management of the Group assess the carrying amount of the Group's interest in the joint venture at the end of each reporting period. Based on the assessment, the recoverable amount of the Group's interest in the joint venture is estimated to be less than its carrying amount. Accordingly, the management of the Group determined that an impairment loss of HK$285,000 (2016: HK$4,666,000) is recognised in profit or loss for the year ended 31st December, 2017.

23. LOAN RECEIVABLE

	2017 HK$'000	2016 HK$'000
Carrying amount analysed for reporting purposes:		
Non-current assets (receivable after 12 months from the end of the reporting period)	—	—

Movement in the carrying amount of loan receivable:

	2017 HK$'000	2016 HK$'000
At 1st January	—	1,260
Impairment loss recognised in profit or loss	—	(1,260)
Exchange realignment	—	—
At 31st December	—	—

The loan receivable is granted to an independent corporate customer and is denominated in United States dollars. The amount carries fixed interest rate at 5% per annum and is repayable through 24 quarterly instalments of US$72,500 (equivalent to approximately HK$566,000) commencing in October 2016 with a balance payment of US$17,500 (equivalent to approximately HK$137,000) in October 2022. The amount is secured by all assets held by the corporate customer.

The Directors assess the collectability on the carrying value of the loan receivable at the end of each reporting period. Based on the assessment, the recoverable amount of the loan receivable is estimated to be less than its carrying amount with reference to the repayments history and the net realisable value of all assets of this corporate customer. Accordingly, the management of the Group determined that an impairment loss of US$162,500 (equivalent to approximately HK$1,260,000) was recognised in profit or loss for the year ended 31st December, 2016.

24. OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Carrying amount analysed for reporting purposes:		
Non-current assets (receivable after 12 months from the end of the reporting period)	787	1,400
Current assets (receivable within 12 months from the end of the reporting period)	1,007	894
	1,794	2,294

24. OTHER RECEIVABLES (continued)

Movement in the carrying amount of other receivables:

	2017 HK$'000	2016 HK$'000
At 1st January	2,294	7,681
Imputed interest income recognised in profit or loss	214	251
Repayments	(1,007)	(4,807)
Exchange realignment	293	(831)
At 31st December	1,794	2,294

On 1st January, 2015, Stepper Eyewear Limited ("Stepper HK"), a non wholly-owned subsidiary of the Company, entered into four sale and purchase agreements with four members of the management team ("Stepper UK Team") of Stepper (UK) Limited ("Stepper UK"), a non wholly-owned subsidiary of the Company, pursuant to which Stepper HK would sell and the Stepper UK Team would purchase a total of 25% of the issued share capital of Stepper UK for an aggregate consideration of £718,250 (equivalent to approximately HK$8,669,000) (the "Stepper UK Price"). The Stepper UK Price was determined by the parties at arm's length negotiations with reference to the price paid by the Group for the acquisition of Stepper UK in July 2014 and the post-acquisition profits earned by Stepper UK. The purpose of the sale of the 25% interest in Stepper UK was to motivate the Stepper UK Team towards higher level of performance of Stepper UK.

On 1st January, 2015, Stepper HK also entered into four sale and purchase agreements with four members of the management team ("Stepper France Team") of Stepper France, a non wholly-owned subsidiary of the Company, pursuant to which (i) Stepper HK would sell and the Stepper France Team would purchase a total of 20% of the issued share capital of Stepper France for an aggregate consideration of €10,000 (equivalent to approximately HK$94,000) (the "Stepper France Share Price") and (ii) Stepper HK would assign its interest in its loan to Stepper France with a face value of €240,000 (equivalent to approximately HK$2,263,000) to the Stepper France Team for an aggregate consideration of €240,000 (equivalent to approximately HK$2,263,000) (the "Stepper France Loan Price"). The Stepper France Share Price and the Stepper France Loan Price were determined by the parties at arm's length negotiations with reference to the nominal value of the share capital of Stepper France transferred and face value of the shareholder's loan assigned respectively. The purpose of the sale of the 20% interest in Stepper France and assignment of shareholder's loan was to motivate the Stepper France Team towards higher level of performance of Stepper France.

On 31st July, 2016, Stepper HK entered into a sale and purchase agreement with a member of Stepper UK Team, Stepper HK would buy back the 15% of the issued share capital of Stepper UK which was sold to this member on 1st January, 2015. The reason of the buy back was the resignation of this member from the Stepper UK Team. On 5th August, 2016, this member had repaid in full the outstanding consideration of £344,760 (equivalent to approximately HK$3,527,000) pursuant to the sale and purchase agreement dated 1st January, 2015.

24. OTHER RECEIVABLES (continued)

On 31st July, 2016, Stepper HK also entered into a sale and purchase agreement with a member of Stepper France Team, (i) Stepper HK would buy back the 3% of the issued share capital of Stepper France which was sold to this member on 1st January, 2015 and (ii) this member would assign the interest in loan to Stepper France with a face value of €36,000 to Stepper HK which was assigned to this member on 1st January, 2015. The reason of the buy back and assignment was the resignation of this member from the Stepper France Team. On 5th August, 2016, this member had repaid in full the outstanding consideration of €30,000 (equivalent to approximately HK$258,000) pursuant to the sale and purchase agreement dated 1st January, 2015.

The other receivables are the consideration receivables from the Stepper UK Team and the Stepper France Team. The considerations are repayable by instalments and will be fully repaid in December 2019. Repayments have been made in accordance with the sale and purchase agreements. The Group does not hold any collateral over these balances.

At the end of the reporting period, the interest-free other receivables are carried at amortised cost, which represents the difference between the carrying amount and the present value of the estimated future cash flows discounted at an effective interest rate of 3.70% (2016: 3.70%) and 4.46% (2016: 4.46%) for Stepper UK Price and Stepper France Loan Price, respectively.

The Group's other receivables that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2017 ***HK$'000***	2016 *HK$'000*
Euro	**740**	936
British Pound Sterling	**1,054**	1,358

25. INVENTORIES

	2017 ***HK$'000***	2016 *HK$'000*
Raw materials	**33,533**	36,727
Work in progress	**98,223**	102,783
Finished goods	**26,468**	23,372
	158,224	162,882

26. DEBTORS, DEPOSITS AND PREPAYMENTS

	2017 *HK$'000*	2016 *HK$'000*
Trade debtors	**326,110**	391,634
Less: Allowance for doubtful debts	**(51,002)**	(43,547)
	275,108	348,087
Bills receivable	**779**	1,242
Other debtors, deposits and prepayments	**13,291**	8,120
Total debtors, deposits and prepayments	**289,178**	357,449

The Group's trade and other debtors that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2017 *HK$'000*	2016 *HK$'000*
Hong Kong dollars	**683**	704
Renminbi	**30,791**	3,882
Euro	**203**	161
United States dollars	**30,602**	35,917
Japanese Yen	**—**	1

The following is an aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2017 *HK$'000*	2016 *HK$'000*
0 – 90 days	**192,963**	262,459
91 – 180 days	**76,327**	84,150
More than 180 days	**5,818**	1,478
	275,108	348,087

The following is an aged analysis of bills receivable presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2017 *HK$'000*	2016 *HK$'000*
0 – 90 days	**779**	1,242

26. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

The Group has a policy of allowing a credit period of 30 days to 120 days to its trade debtors. No interest is charged on the trade debtors. The Group has provided fully for all receivables past due beyond 360 days because historical experience showed that receivables that are past due beyond 360 days are generally not recoverable. Trade debtors past due between 60 days and 360 days are provided for based on estimated irrecoverable amounts from the sales of goods, determined by reference to historical settlement records and subsequent settlement.

Before accepting any new customer, the Group carries out research on the creditability of new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed at least once a year. Trade debtors that are neither past due nor impaired have good track records with the Group.

Included in the Group's trade debtor balance are debtors with aggregate carrying amount of HK$71,266,000 (2016: HK$72,807,000) which are past due at the reporting date for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

Ageing of trade debtors which are past due but not impaired

	2017 ***HK$'000***	2016 *HK$'000*
Overdue:		
1 – 90 days	**66,223**	72,807
More than 90 days	**5,043**	—
	71,266	72,807

Ageing of bills receivable which are past due but not impaired

	2017 ***HK$'000***	2016 *HK$'000*
Overdue:		
1 – 90 days	**407**	98

Movement in the allowance for doubtful debts

	2017 ***HK$'000***	2016 *HK$'000*
At 1st January	**43,547**	40,532
Impairment losses recognised on receivables	**7,487**	3,003
Amounts written off as uncollectible	**(52)**	174
Exchange realignment	**20**	(162)
At 31st December	**51,002**	43,547

26. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Movement in the allowance for doubtful debts (continued)

In determining the recoverability of a trade debtor, the Group considers any change in the credit quality of the trade debtor from the date credit was initially granted up to the end of each reporting period. The Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts were individually impaired trade debtors with an aggregate balance of HK$51,002,000 (2016: HK$43,547,000) which are in severe financial difficulties and therefore the Directors considered that they are irrecoverable.

Trade receivable due from the associate and joint venture

Included in the Group's trade receivable is an amount due from the Group's associate of HK$23,708,000 net of allowance for doubtful debts of nil (2016: HK$18,112,000 net of allowance for doubtful debts of HK$18,000) and an amount due from the Group's joint venture of HK$126,000 (2016: HK$179,000), which are repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. The amounts outstanding are unsecured and not past due at the end of the reporting period. No impairment has been recognised in the period for doubtful debts in respect of the amount outstanding from the joint venture.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 *HK$'000*	2016 *HK$'000*
Foreign currency forward contracts	—	128

Major terms of the foreign currency forward contracts are as follows:

2016

National amount	Maturity	Exchange rates
Sell £50,000	6th January, 2017	£1: US$1.330852
Sell £50,000	3rd March, 2017	£1: US$1.335394
Sell £50,000	7th April, 2017	£1: US$1.336268
Sell £50,000	12th June, 2017	£1: US$1.271476

28. STRUCTURED DEPOSITS

At 31st December, 2017, principal-protected floating income structured deposits are placed with a bank in the PRC and the returns of which are determined by reference to the change in interest rates quoted in the market. The structured deposits are designated as financial assets at fair value through profit or loss on initial recognition. The principal amounts of the structured deposits are RMB95,000,000 (equivalent to approximately HK$114,911,000) which carry interests ranging from 0% to 4.50% per annum, dependent on three-month London Inter Bank Offered Rate ("LIBOR") for deposits in United States dollars during the period from inception date to maturity date of the deposit agreements. The fair value of the structured deposits at the end of reporting period as determined by the issuer, being a financial institution, was HK$114,911,000.

29. SHORT-TERM BANK DEPOSITS AND BANK BALANCES AND CASH

At 31st December, 2017, short-term bank deposits represent deposits held by the Group with an original maturity of three months or less.

Bank balances carry market interest rates which range from 0.001% to 0.300% (2016: 0.001% to 0.300%) per annum and short-term bank deposits carry market rate at 1.35% in 2017 (2016: ranging from 1.10% to 1.35%) per annum.

The Group's short-term bank deposits and bank balances and cash that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2017 *HK$'000*	2016 *HK$'000*
Hong Kong dollars	11,019	8,045
Renminbi	48	56
Euro	4,478	1,272
United States dollars	15,953	6,030
Japanese Yen	543	421
British Pound Sterling	6,132	32

30. CREDITORS AND ACCRUED CHARGES

	2017 *HK$'000*	2016 *HK$'000*
Trade creditors	98,840	106,587
Other creditors and accrued charges	317,424	318,366
	416,264	424,953

30. CREDITORS AND ACCRUED CHARGES (continued)

The Group's trade and other creditors that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2017 *HK$'000*	2016 *HK$'000*
Hong Kong dollars	**55,384**	59,249
Renminbi	**14,074**	12,289
Euro	**4,491**	5,206
United States dollars	**1,770**	2,600
Japanese Yen	**1,922**	1,412

The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period:

	2017 *HK$'000*	2016 *HK$'000*
0 – 60 days	**81,849**	88,999
61 – 120 days	**13,793**	16,007
More than 120 days	**3,198**	1,581
	98,840	106,587

The credit period on purchase of goods is 60 days to 120 days. No interest is charged by the trade creditors. The Group has financial risk management policies in place to ensure that all payables to major suppliers are paid within the credit timeframe.

Trade payable due to the associate

Included in the Group's trade payable is an amount due to the Group's associate of HK$503,000 (2016: HK$1,469,000), which is repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature. The amount outstanding is unsecured and not past due at the end of the reporting period.

31. BANK BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank borrowings:		
– Secured	56,687	171,797
– Unsecured	—	47,060
	56,687	218,857
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	26,054	102,162
– more than one year, but not exceeding two years	5,365	86,071
– more than two years, but not exceeding five years	17,003	16,564
– more than five years	8,265	14,060
	56,687	218,857
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	(56,687)	(218,857)
Amounts due after one year shown under non-current liabilities	—	—

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. Bank borrowings of HK$27,014,000 (2016: HK$30,880,000) and nil (2016: HK$60,000,000) carry interests at Hong Kong Prime Rate less 2.6% and one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% respectively. These borrowings are secured by the Group's investment properties, leasehold land and buildings with carrying amount of HK$155,455,000 (2016: HK$142,797,000).

A bank borrowing of HK$8,840,000 (2016: HK$10,084,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$31,585,000 (2016: HK$32,730,000) and carries interest at one-month HIBOR plus 1.8%.

A bank borrowing of HK$20,833,000 (2016: HK$70,833,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$35,887,000 (including leasehold land and building with carrying amount of HK$31,585,000 as mentioned above) and carries interest at one-month HIBOR plus 2.9%.

At 31st December, 2016, unsecured bank borrowings of HK$47,060,000 carried interests at HIBOR plus certain basis points.

31. BANK BORROWINGS (continued)

The effective interest rates per annum at the end of the reporting period on the bank borrowings of the Group were as follows:

	2017	2016
Variable-rate borrowings	3.19%	3.03%

The Group's bank borrowings that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2017 *HK$'000*	2016 *HK$'000*
Hong Kong dollars	20,833	177,893

32. SHARE CAPITAL

The share capital of the Company was as follows:

	Number of shares **31.12.2017** **&** **31.12.2016**	**Nominal value** **31.12.2017** **&** **31.12.2016** ***HK$'000***
Ordinary shares of HK$0.1 each:		
Authorised:		
At beginning and end of year	**1,000,000,000**	**100,000**
Issued and fully paid:		
At beginning and end of year	**383,650,000**	**38,365**

33. DEFERRED TAX (LIABILITIES) ASSETS

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation *HK$'000*	Other temporary difference *HK$'000* *(Note)*	Total *HK$'000*
At 1st January, 2016	(6,834)	(5,043)	(11,877)
(Charge) credit to profit or loss	(965)	2,079	1,114
Exchange realignment	(39)	—	(39)
	(1,004)	2,079	1,075
At 31st December, 2016	(7,838)	(2,964)	(10,802)
(Charge) credit to profit or loss	(272)	1,465	1,193
Exchange realignment	20	—	20
	(252)	1,465	1,213
At 31st December, 2017	(8,090)	(1,499)	(9,589)

Note: The amount represents the net temporary differences arising from capitalisation of production cost of inventories at Group level and unrealised profits on the inventories arising from intra-group sales.

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 ***HK$'000***	2016 *HK$'000*
Deferred tax assets	**206**	186
Deferred tax liabilities	**(9,795)**	(10,988)
	(9,589)	(10,802)

33. DEFERRED TAX (LIABILITIES) ASSETS (continued)

At 31st December, 2017, the Group has unused tax losses of HK$518,375,000 (2016: HK$442,796,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$40,460,000 (2016: HK$52,607,000) that will expire from 2018 to 2022 (2016: expire from 2017 to 2021). Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK$376,384,000 (2016: HK$18,432,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits, as disclosed in the consolidated statement of changes in equity.

The Directors review the capital structure periodically. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if necessary.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 *HK$'000*	2016 *HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	515,001	982,261
Fair value through profit or loss		
− Structured deposits	114,911	—
− Derivative financial instruments	—	128
Financial liabilities		
Amortised cost	236,320	410,777

35. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include debtors, other receivables, loan to a joint venture, derivative financial instruments, structured deposits, short-term bank deposits, bank balances and cash, creditors and accrued charges, and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

(i) Currency risk

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group also has other receivables, trade and other debtors, derivative financial instruments, short-term bank deposits, bank balances and cash, trade and other creditors as well as bank borrowings denominated in foreign currency balances. Details of foreign currency balances are detailed in notes 24, 26, 29, 30 and 31.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**11,702**	8,749	**76,217**	237,142
Renminbi	**30,839**	3,938	**14,074**	12,289
Euro	**5,421**	2,369	**4,491**	5,206
United States dollars	**46,555**	41,947	**1,770**	2,600
Japanese Yen	**543**	422	**1,922**	1,412
British Pound Sterling	**7,186**	1,390	**—**	—

35. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in currency of Renminbi, Euro, Japanese Yen and British Pound Sterling. The Hong Kong dollars ("HKD") and United States dollars ("USD") denominated monetary items arose from group entities with functional currency of USD and HKD respectively. As HKD is pegged to USD, the Directors consider that the foreign currency exposure is limited.

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% (2016: 5%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items (other than those denominated in HKD and USD) and adjusts their translation at the period end for a 5% (2016: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax loss (2016: an increase in post-tax profit) where the functional currencies of the relevant group entities strengthen against the relevant foreign currencies. For a 5% (2016: 5%) weakening of the functional currencies of the relevant group entities, there would be an equal and opposite impact on the post-tax loss (2016: post-tax profit), and the balances below would be negative.

	Decrease (increase) in loss for the year (post-tax)	Increase (decrease) in profit for the year (post-tax)
	2017	2016
	HK$'000	*HK$'000*
Renminbi	**(838)**	416
Euro	**(47)**	141
Japanese Yen	**69**	49
British Pound Sterling	**(359)**	(69)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

35. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate structured deposits, short-term bank deposits, bank balances and borrowings (see notes 28, 29 and 31 for details of these financial instruments). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate and HIBOR arising from the Group's borrowings.

Sensitivity analysis

Sensitivity analysis on bank balances is not presented as the management of the Group considers that the Group's exposure to interest rate fluctuation is insignificant.

The sensitivity analysis below has been determined based on the exposure to interest rates for structured deposits invested, short-term bank deposits placed and borrowings outstanding at the end of the reporting period. The analysis is prepared assuming the structured deposits invested, short-term bank deposits placed and borrowings outstanding at the end of the reporting period were placed and outstanding for the whole year. A 50 basis point (2016: 50 basis point) represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31st December, 2017 would decrease/increase by HK$406,000 (2016: post-tax profit for the year ended 31st December, 2016 would increase/decrease by HK$1,685,000). This is mainly attributable to the Group's exposure to interest rates on its structured deposits invested, short-term bank deposits placed and borrowings outstanding.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk inherent in the financial assets and financial liabilities as the year end exposure does not reflect the exposure during the year.

Credit risk

As at 31st December, 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

35. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

In order to minimise the credit risk, the management of the Group has delegated a team responsible for 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 reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts, taking into account any change in the credit quality of the trade debtors from the date credit was initially granted up to the reporting date. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk for structured deposits and bank deposits are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on the loan receivable, other receivables and liquid funds which are deposited with several banks with high credit ratings, the Group has concentration of credit risks with exposure limited to certain customers. At the end of the reporting period, five customers of the Group accounted for about 48% (2016: 55%) of the Group's trade debtors. These five customers are leading global players of the eyewear industry and distribute eyewear products under their portfolio of fashion brands through their global distribution and/or retailing networks. The Group considers that the concentration of risk is low as these five customers have good reputation and payment records. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of bank borrowings.

As at 31st December, 2017, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$3,000,000 (2016: HK$3,000,000) and HK$110,980,000 (2016: HK$70,920,000) respectively. The facilities expiring within one year are annual facilities subject to review at various dates during 2018.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

35. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average effective interest rate	On demand or less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31st December, 2017					
Non-derivative financial liabilities					
Creditors and accrued charges	**—**	**177,360**	**2,273**	**179,633**	**179,633**
Bank borrowings – variable rate	**3.19**	**56,687**	**—**	**56,687**	**56,687**
		234,047	**2,273**	**236,320**	**236,320**
31st December, 2016					
Non-derivative financial liabilities					
Creditors and accrued charges	—	188,838	3,082	191,920	191,920
Bank borrowings – variable rate	3.03	218,857	—	218,857	218,857
		407,695	3,082	410,777	410,777

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 3 months" time band in the above maturity analysis. As at 31st December, 2017 and 31st December, 2016, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$56,687,000 and HK$218,857,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that these outstanding bank borrowings at 31st December, 2017 will be fully repaid by June 2024 in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	Maturity Analysis – Bank loans with a repayment on demand clause based on scheduled repayments					
	0 – 3 months	4 – 12 months	> 1 – < 2 year	> 2 – < 5 years	> 5 years	Total undiscounted cash outflows
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31st December, 2017	**14,200**	**12,976**	**6,137**	**18,410**	**8,431**	**60,154**
31st December, 2016	62,407	44,622	88,080	18,350	14,518	227,977

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

35. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and key input(s) used).

Financial assets	Fair values as at 31.12.2017 *HK$'000*	Fair values as at 31.12.2016 *HK$'000*	Fair value hierarchy	Valuation technique(s) and key input(s)
Foreign currency forward contracts classified as financial assets at FVTPL in the consolidated statement of financial position	—	128	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Structured deposits designated as financial assets at FVTPL in the consolidated statement of financial position	114,911	—	Level 2	Discounted cash flow. Future cash flows are estimated based on quoted interest rates which are observable at the end of the reporting period, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 and 2 during the year.

Fair value of financial asset and financial liabilities that are not measured at fair value on a recurring basis

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities at amortised cost recognised in the consolidated financial statements approximate their fair values.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those 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 *HK$'000*	**Dividend payable** *HK$'000*	**Total** *HK$'000*
At 1st January, 2017	218,857	—	218,857
Financing cash flows	(166,820)	(104,193)	(271,013)
Interest expenses	4,650	—	4,650
Dividends declared	—	104,193	104,193
At 31st December, 2017	56,687	—	56,687

37. RETIREMENT BENEFIT SCHEMES

The Group has participated in a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

As stipulated under the rules and regulations in the PRC, the subsidiaries established in the PRC are required to contribute certain percentage of payroll costs of its employees to a state-managed retirement scheme operated by the provincial governments for its employees in the PRC. After the contribution, the Group has no further obligation for actual payment of the retirement benefits.

The retirement benefit scheme contributions arising from the above retirement schemes charged to profit or loss represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of HK$37,029,000 (2016: HK$40,410,000) represents contributions paid and payable to these schemes by the Group. At the end of the reporting period, there was no forfeited contribution available to reduce future contributions in both years.

38. OPERATING LEASES

The Group as lessor:

At the end of the reporting period, the Group had contracted with lessees for the following future minimum lease payments:

	2017 *HK$'000*	2016 *HK$'000*
Within one year	3,399	1,270
In the second to fifth years inclusive	2,096	263
	5,495	1,533

Property rental income earned during the year was HK$3,640,000 (2016: HK$2,968,000). The properties held at the reporting date have committed tenants for an average terms of two years with fixed rentals.

The Group as lessee:

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2017 *HK$'000*	2016 *HK$'000*
Within one year	2,121	683
In the second to fifth years inclusive	2,100	224
	4,221	907

Operating lease payments represent rentals payable by the Group for certain of its office, retail shop and other premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

39. CAPITAL COMMITMENTS

	2017 *HK$'000*	2016 *HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– set up cost of investment in a subsidiary	4,728	—
– buildings under construction	1,194	2,754
– leasehold improvements	1,726	130,442
– plant and machinery	1,007	885
– furniture, fixtures and office equipment	—	1,262
	8,655	135,343

40. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties during the year:

	An associate		A joint venture	
	2017 *HK$'000*	2016 *HK$'000*	**2017** *HK$'000*	2016 *HK$'000*
Trade sales	**50,666**	42,036	**281**	169
Trade purchases	**3,900**	4,298	**—**	—

Sales of goods to the associate and joint venture were made at the Group's usual list prices.

Other than the above, the details of loan to, trade receivable from and trade payable to the associate and joint venture are shown in notes 22, 26 and 30 respectively. No guarantees have been given to or received from the associate and joint venture.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2017 *HK$'000*	2016 *HK$'000*
Short-term benefits	**9,636**	10,660
Post-employment benefits	**492**	758
Termination benefits	**931**	1,476
	11,059	12,894

The remuneration of executive directors and key executives was determined by the Remuneration Committee having regard to the performance of individuals and market trends. The remuneration of independent non-executive directors was recommended by the board of Directors and approved by the shareholders of the Company at the annual general meeting.

41. DISPOSAL OF A SUBSIDIARY

On 1st June, 2017, 宏懋金屬製品(深圳)有限公司 (known as "Hongmao Metal Products (Shenzhen) Company Limited") ("Hongmao"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with an independent third party (the "Purchaser"). Pursuant to the Equity Transfer Agreement, Hongmao agreed to sell and the Purchaser agreed to purchase the entire equity interest in 惠州市藝駿房地產開發有限公司 (known as "Huizhou Yijun Real Estate Development Company Limited") ("Yijun"), a wholly-owned subsidiary of Hongmao, at a consideration of RMB45,000,000 (equivalent to approximately HK$51,838,000). The consideration was determined after arm's length negotiation between Hongmao and the Purchaser and the transaction was completed on 28th June, 2017.

41. DISPOSAL OF A SUBSIDIARY (continued)

Yijun is principally engaged in property holding. The principal asset owned by Yijun is two parcels of land located at Dong Feng Village, Xinxu Town, Huizhou City, Guangdong Province, the PRC with a total site area of approximately 24,893.90 square metres.

Consideration received:

	HK$'000
Cash consideration	51,838

Analysis of net assets and liability at the date of disposal:

	HK$'000
Other debtor	3,602
Prepaid lease payments	16,646
Bank balance and cash	121
Building	414
Deposit paid for acquisition of property	194
Accrued charge	(38)
Net assets disposed of	20,939

Gain on disposal of a subsidiary:

	HK$'000
Consideration	51,838
Net assets disposed of	(20,939)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss upon disposal of a subsidiary	(1,691)
Gain on disposal	29,208

Net cash inflow on disposal of a subsidiary:

	HK$'000
Cash consideration received	51,838
Less: Bank balance and cash disposed of	(121)
	51,717

42. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2017 and 31st December, 2016 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company				Principal activities
			2017		2016		
			Directly	Indirectly	Directly	Indirectly	
Allied Power Inc.	British Virgin Islands	Canadian Dollars 50,000	100%	—	100%	—	Investment holding
Apex City Industrial Limited	Hong Kong	HK$100	—	100%	—	100%	Trading in prescription frames and sunglasses
Argent Optical Manufactory Limited	Hong Kong/PRC	HK$100,000	—	100%	—	100%	Manufacture of prescription frames and sunglasses
Arts Optical Company Limited	Hong Kong	HK$1,000,000	—	100%	—	100%	Trading in prescription frames and sunglasses
Arts Studio Limited	Hong Kong	HK$100	—	100%	—	100%	Trading in prescription frames and sunglasses
Sin Dak Industrial Limited	Hong Kong	HK$40,000	—	100%	—	100%	Property holding
Stepper Eyewear Limited	Hong Kong	HK$100	—	80%	—	80%	Trading in prescription frames and sunglasses
Stepper France	France	€50,000	—	66.4%	—	66.4%	Trading in prescription frames and sunglasses
Stepper South Africa (Proprietary) Limited	South Africa	South African Rand 500,000	—	80%	—	—	Trading in prescription frames and sunglasses
Stepper (UK) Limited	United Kingdom	£5,000	—	72%	—	72%	Trading in prescription frames and sunglasses
雅視光學發展(深圳)有限公司 Arts Optical Development (Shenzhen) Company Limited	PRC	HK$70,000,000	—	100% *(Note)*	—	100% *(Note)*	Manufacture of prescription frames and sunglasses
宏懋金屬製品(深圳)有限公司 (known as "Hongmao Metal Products (Shenzhen) Company Limited")	PRC	HK$61,000,000	—	100% *(Note)*	—	100% *(Note)*	Property holding
滙駿光學城(河源)有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK$150,000,000	—	100% *(Note)*	—	100% *(Note)*	Manufacture of prescription frames and sunglasses
惠州市藝駿房地產開發有限公司 (known as "Huizhou Yijun Real Estate Development Company Limited")	PRC	RMB20,000,000	—	—	—	100%	Property holding

Note: These subsidiaries are registered as wholly foreign-owned companies.

42. PRINCIPAL SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities at 31st December, 2017 or at any time during the year.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. These other subsidiaries were mainly established in the PRC and their principal activities are mainly either investment holding or inactive.

43. FINANCIAL POSITION OF THE COMPANY

	2017 *HK$'000*	2016 *HK$'000*
Non-current Assets		
Investment in a subsidiary	**139,040**	139,040
Amount due from a subsidiary	**124,086**	124,993
	263,126	264,033
Current Assets		
Deposits and prepayments	**205**	340
Bank balances	**483**	95
	688	435
Current Liabilities		
Accrued charges	**1,336**	1,353
Dividend payable	**56**	50
	1,392	1,403
Net Current Liabilities	**(704)**	(968)
Total Assets less Current Liabilities	**262,422**	263,065
Capital and Reserves		
Share capital	**38,365**	38,365
Reserves *(Note)*	**224,057**	224,700
	262,422	263,065

43. FINANCIAL POSITION OF THE COMPANY (continued)

Note: The movements in reserves of the Company are presented below:

	Share premium *HK$'000*	Contributed surplus *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*
THE COMPANY				
At 1st January, 2016	113,950	105,369	20,152	239,471
Profit for the year	—	—	14,387	14,387
Dividends paid *(note 14)*	—	—	(29,158)	(29,158)
At 31st December, 2016	113,950	105,369	5,381	224,700
Profit for the year	—	—	102,943	102,943
Dividends paid *(note 14)*	—	—	(103,586)	(103,586)
At 31st December, 2017	113,950	105,369	4,738	224,057

Note: The contributed surplus represents a difference of HK$105,469,000 between the consolidated net asset value of Allied Power Inc. and the nominal amount of the share capital issued by the Company and the subsequent capitalisation of HK$100,000 of nil paid shares of the Company pursuant to the group reorganisation in 1996.

44. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in these financial statements, which have no material effect on previously reported profit and equity, to conform with the current year's presentation.

Financial Summary

RESULTS

	Year ended 31st December,				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
REVENUE	1,462,983	1,593,255	1,382,427	1,255,126	**1,028,188**
PROFIT (LOSS) BEFORE TAX	59,022	(94,122)	(36,001)	844,030	**(657,539)**
INCOME TAX EXPENSE	(10,108)	(4,939)	(7,296)	(3,612)	**(11,408)**
PROFIT (LOSS) FOR THE YEAR	48,914	(99,061)	(43,297)	840,418	**(668,947)**
PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	47,651	(100,927)	(48,873)	835,754	**(674,549)**
NON-CONTROLLING INTERESTS	1,263	1,866	5,576	4,664	**5,602**
	48,914	(99,061)	(43,297)	840,418	**(668,947)**

ASSETS AND LIABILITIES

	At 31st December,				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
TOTAL ASSETS	1,677,178	2,329,889	2,081,310	2,493,737	**1,659,411**
TOTAL LIABILITIES	(353,994)	(1,120,782)	(1,002,170)	(657,145)	**(492,592)**
	1,323,184	1,209,107	1,079,140	1,836,592	**1,166,819**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	1,316,384	1,200,545	1,061,910	1,820,075	**1,144,587**
NON-CONTROLLING INTERESTS	6,800	8,562	17,230	16,517	**22,232**
	1,323,184	1,209,107	1,079,140	1,836,592	**1,166,819**

Properties Held for Investment

LIST OF INVESTMENT PROPERTIES

Location	Type of properties	Lease term
Units A to H, J and K on 32nd Floor King Palace Plaza No. 55 King Yip Street, Kwun Tong Kowloon, Hong Kong	Office premises	Medium-term lease
Car parking spaces no. P35 to P38, P40, P41 and P43 on 2nd Floor King Palace Plaza No. 55 King Yip Street, Kwun Tong Kowloon, Hong Kong	Car park	Medium-term lease