KADER

Manufacturing Trust

KADER HOLDINGS COMPANY LIMITED

ANNUAL REPORT 2017

(Stock Code : 180)

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Kenneth Ting Woo-shou *SBS, JP (Chairman and Managing Director)*
Nancy Ting Wang Wan-sun

Non-executive Directors:

Ivan Ting Tien-li *(Re-designated as an Executive Director on 1 April 2018)*
Moses Cheng Mo-chi *GBM, GBS, OBE, JP*
Bernie Ting Wai-cheung

Independent Non-executive Directors:

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

COMPANY SECRETARY

Lao Wai-keung

AUDIT COMMITTEE

Desmond Chum Kwan-yue *(Chairman)*
(Independent Non-executive Director)
Moses Cheng Mo-chi
(Non-executive Director)
Floyd Chan Tsoi-yin
(Independent Non-executive Director)
Andrew Yao Cho-fai
(Independent Non-executive Director)

REMUNERATION COMMITTEE

Andrew Yao Cho-fai *(Chairman)*
(Independent Non-executive Director)
Kenneth Ting Woo-shou
(Executive Director)
Floyd Chan Tsoi-yin
(Independent Non-executive Director)

NOMINATION COMMITTEE

Kenneth Ting Woo-shou *(Chairman)*
(Executive Director)
Floyd Chan Tsoi-yin
(Independent Non-executive Director)
Desmond Chum Kwan-yue
(Independent Non-executive Director)

AUTHORISED REPRESENTATIVES

Kenneth Ting Woo-shou
Ivan Ting Tien-li

SOLICITORS

P.C. Woo & Co.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

22 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL BANKERS

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

INDEPENDENT AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL REGISTRARS

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

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

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

Chairman's Statement

On behalf of the Board of Directors (the "Board") of Kader Holdings Company Limited (the "Company"), I am pleased to present to our shareholders the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

The Group's revenue for the financial year ended 31 December 2017 amounted to approximately HK$823.45 million, representing an increase of approximately 9.28% over that reported last year and the profit from operations for 2017 amounted to approximately HK$165.22 million as compared to last year's profit from operations of approximately HK$102.37 million. The Group's profit attributable to shareholders for the financial year ended 31 December 2017 was approximately HK$321.75 million, which included valuation gains on investment properties amounting to approximately HK$186.37 million, as compared to last year's profit attributable to shareholders of approximately HK$122.91 million which included valuation gains on investment properties of approximately HK$57.72 million.

The Directors recommend the payment of a final dividend of HK2.0 cents per ordinary share (2016: HK1.5 cents per ordinary share) for the year ended 31 December 2017 payable on 29 June 2018 to those shareholders whose names appear on the Register of Members of the Company as at the close of business on 21 June 2018 subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

With the upswing in the global economy and the dedicated contributions from our management teams and employees, the Group achieved a satisfactory result and increased its profit attributable to shareholders in 2017. To sustain the business growth in the long run, the Group will continue to enhance the development of its core business by building up sales channels, developing its own brand products, exploring new sales opportunities in the global market, etc. In relation to cost control, the Group will continue to streamline the operational procedures to enhance the efficiency and implement various measures to minimize the costs. With the above measures and the experienced and dedicated management team, the Group is optimistic to deliver attractive returns to the shareholders in the future.

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

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

Kenneth Ting Woo-shou
Chairman

Hong Kong, 28 March 2018

Management Discussion and Analysis

RESULTS

The Board announces that the Group's revenue for the financial year ended 31 December 2017 amounted to approximately HK$823.45 million, representing an increase of approximately 9.28% over that reported last year and the profit from operations for 2017 amounted to approximately HK$165.22 million as compared to last year's profit from operations of approximately HK$102.37 million. The Group's profit attributable to shareholders for the financial year ended 31 December 2017 was approximately HK$321.75 million, which included valuation gains on investment properties amounting to approximately HK$186.37 million, as compared to last year's profit attributable to shareholders of approximately HK$122.91 million which included valuation gains on investment properties of approximately HK$57.72 million.

BUSINESS REVIEW

Benefit from the global economic growth, the Group achieved a satisfactory result and increased its profit attributable to shareholders in 2017. To sustain the business growth in the long run, the Group will progressively explore new sales opportunities, implement various measures to increase efficiency and strengthen the cost control measures.

Toys and Model Trains

For the financial year ended 31 December 2017, the revenue was approximately HK$771.05 million, representing an increase of approximately 9.73% as compared to last year.

The Group will continue to manufacture high quality products with competitive prices to increase the revenue and profit.

Property Investment

For the financial year ended 31 December 2017, the Group's rental income amounted to approximately HK$52.40 million, representing an increase of approximately 3.01% over the previous year. In addition, the Group recorded valuation gains of approximately HK$186.37 million on its investment properties for the year, as compared to last year's valuation gains of approximately HK$57.72 million.

During the year under review, the occupancy rate of its investment properties is approximately 83%.

RISKS AND UNCERTAINTIES

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

Business Risk

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

Interest Rate Risk

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

Liquidity risk

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

Customer risk

The sales to one of the Group's customers represented approximately 57% of the Group's sales in 2017. The Group has endeavoured to diversify its customer base and provided quality products and services to the customers to maintain good relationship with them so as to mitigate the customer risk.

Foreign Exchange Rate Risk

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

Management Discussion and Analysis *(Continued)*

ENVIRONMENTAL POLICY

Effective environmental protection measures will not only contribute to environmental protection but also reduction of the operating costs. The following are some measures adopted by the Group:

1. Chemical wastes produced by the production plants are collected and treated properly by licensed waste collectors.
2. Lightings and electrical appliances are switched off when unnecessary.
3. Some traditional vehicles are replaced by hybrid vehicle and electric vehicle.
4. Energy-efficient lightings are used in our offices and production plants.
5. "Save water" labels are posted in the pantries.

The management will from time to time review the effectiveness of such measures and consider implementing other measures for environmental protection.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the Group's business and operations.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes that our employees, customers and business partners are the keys to our sustainable development. The Group is committed to establish a close and caring relationship with our employees, provide quality services to our customers and enhance cooperation with our business partners.

Management Discussion and Analysis *(Continued)*

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2017, the Group's net asset value per share was approximately HK$2.24 (2016: approximately HK$1.90). The Group had net current assets of approximately HK$114.85 million (2016: approximately HK$9.67 million). Total bank borrowings were approximately HK$282.91 million (2016: approximately HK$329.59 million) while the secured total banking facilities were approximately HK$789.02 million (2016: approximately HK$795.89 million). Included in total bank borrowings were revolving loans of approximately HK$180.83 million (2016: approximately HK$210.89 million) which are intended to be rolled over upon maturity. The Group's financial gearing, based on the total bank borrowings compared to the total equity, was approximately 13.28% (2016: approximately 18.29%). The majority of borrowings are on floating interest rate terms. The Group will negotiate with banks to increase the banking facilities for working capital needs, if necessary.

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

At 31 December 2016, an overseas subsidiary of the Group could not fulfil certain covenants imposed by a bank on a loan of HK$3,369,000, and bank loans of HK$14,605,000 were cross-defaulted. These loans were classified as current liabilities in the consolidated statement of financial position. The loan of HK$3,369,000 was fully repaid in March 2017.

Capital Structure

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

Charges on Group Assets

As at 31 December 2017, investment properties, certain leasehold land and buildings, inventories and other assets of the Group with a net book value of approximately HK$1,580.60 million (2016: approximately HK$1,862.90 million) were mortgaged to various banks to secure the banking facilities granted to the Group.

Material Acquisitions and Disposals

There were no material acquisitions and disposals during the year ended 31 December 2017.

Contingent Liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities.

Management Discussion and Analysis *(Continued)*

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed 2,052 (2016: 2,079) full time management, administrative and production staff in Hong Kong Special Administrative Region ("HKSAR"), Mainland China, the United States and Europe. The Group has seasonal fluctuations in the number of workers employed in its production plants while the number of management and administrative staff remains stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

PROSPECTS

Looking forward, with the signs of the economic growth in the global market and our experienced management team, the Group is optimistic about its future development. Meanwhile, the Group has the intention to revitalize the investment properties, and has commenced initial procedures and submitted the relevant documents to the Government of the HKSAR. The revitalization will enhance the Group's source of revenue and profitability.

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

Hong Kong, 28 March 2018

Corporate Governance Report

The Board of Directors is pleased to present this Corporate Governance Report for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board comprises two Executive Directors (one of whom is the Chairman and Managing Director of the Company), three Non-executive Directors and four INEDs. The biographical details of all directors of the Company, including the relationship amongst them, are set out on pages 22 to 25 of this annual report.

Corporate Governance Report *(Continued)*

Chairman and Managing Director

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

Non-executive Directors and Independent Non-executive Directors

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

Appointment and Re-election of Directors

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

Continuous Professional Development of Directors

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

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

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

Role of the Board

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

Board Meetings

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

Corporate Governance Report *(Continued)*

Attendance Records of Directors

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

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

BOARD COMMITTEES

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

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

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

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

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

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

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

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

Remuneration Committee

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

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

The emoluments of each of the directors of the Company for 2017 are set out in note 7 to the financial statements.

Corporate Governance Report *(Continued)*

Audit Committee

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

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

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

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

1. Any changes in accounting policies and practices;
2. Major judgemental areas;
3. Significant adjustments resulting from audit;
4. The going concern assumptions and any qualifications;
5. Compliance with accounting standards;
6. Compliance with the Listing Rules and other legal requirements in relation to financial reporting; and
7. Any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give due consideration to any matters that have been raised by senior management.

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

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

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

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

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

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

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

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

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

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

Nomination Committee

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

Corporate Governance Report *(Continued)*

The Nomination Committee held one meeting during the year. The duties of the Committee are to (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement corporate strategy; (ii) identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorship; (iii) assess the independence of INEDs; and (iv) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the chief executive.

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

AUDITORS' REMUNERATION

Each year, the auditors are appointed at the Annual General Meeting ("AGM") and at the AGM held on 8 June 2017, directors were authorised to fix the auditors' remuneration for auditing services rendered.

The fees for audit and audit related services provided by the Group's auditors, KPMG, for the year ended 31 December 2017 are as follows:

Service rendered	**Fees paid/payable** *HK$*
Audit services	3,281,000
Tax services	857,000
	4,138,000

In addition, audit services and tax services were provided by other auditors to certain subsidiaries for the year ended 31 December 2017 and the related fees amounted to HK$992,000 and HK$222,000 respectively.

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

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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

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

The responsibility of the auditors with respect to the financial statements is set out in the Independent Auditor's Report on pages 49 and 54 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

During the 2017, the outsourced internal auditor responsible for the review and appraisal on the effectiveness of financial, operational and compliance controls and risk management of the Group, provided reports to the Audit Committee and the management highlighting observations and recommendations to improve the risk management and internal control systems. The management agreed on the findings and adopted the recommendations accordingly.

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

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

Corporate Governance Report *(Continued)*

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

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

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

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

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

SHAREHOLDERS' RIGHTS

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

INVESTOR RELATIONS

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

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

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

As at 31 December 2017, the Company had 950,587,991 shares in issue, with a par value of HK$0.10 each. Interests of the directors and chief executives in the shares of the Company are disclosed in the Directors' Report set out on pages 26 to 27 of this annual report.

Directors' Report

The Directors of the Company have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

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

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

SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31 December 2017 are set out in note 13 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2017 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 55 to 141.

BUSINESS REVIEW

A business review of the Group is provided in the Management Discussion and Analysis on pages 4 to 8. An analysis of the Group's performance using financial key performance indicators is provided in the Five-Year Summary on pages 143 to 144. No important events affecting the Group have occurred since the end of the financial year under review.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 143 to 144 of the annual report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 26(c) to the financial statements. There was no change in the authorized and issued share capital during the year.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of approximately HK$321,748,000 (2016: approximately HK$122,905,000) have been transferred to reserves. Other movements in reserves during the year are set out in the consolidated statement of changes in equity.

Directors' Report *(Continued)*

DIVIDEND

The Directors recommend the payment of a final dividend of HK2.0 cents per ordinary share (2016: HK1.5 cents per ordinary share) for the year ended 31 December 2017 payable on 29 June 2018 to those shareholders whose names appear on the Register of Members of the Company as at the close of business on 21 June 2018 subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

DONATIONS

Donations made by the Group during the year for charitable and other purposes amounted to approximately HK$1,615,000 (2016: HK$350,000).

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2017 are set out in note 21 to the financial statements.

RETIREMENT SCHEMES

Details of the retirement schemes of the Group are set out in note 29 to the financial statements.

PROPERTY

Particulars of the property of the Group are shown on page 142 of the annual report.

MAJOR SUPPLIERS AND CUSTOMERS

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

	2017	2016
	%	%
Purchases		
– the largest supplier	**20**	17
– five largest suppliers combined	**47**	46
Sales		
– the largest customer	**57**	52
– five largest customers combined	**68**	64

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

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2017 are set out in note 30 to the financial statements.

DIRECTORS

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

Executive Directors:
Kenneth Ting Woo-shou *(Chairman and Managing Director)*
Nancy Ting Wang Wan-sun

Non-executive Directors:
Ivan Ting Tien-li
Moses Cheng Mo-chi
Bernie Ting Wai-cheung

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

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

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

Directors' Report *(Continued)*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Chairman and Managing Director

Mr. Kenneth Ting Woo-shou, SBS, JP, aged 75, was reappointed as the Managing Director of the Company in July 2012. He was appointed as the Chairman of the Company and resigned as the Managing Director of the Company in July 2010. He has been the Managing Director of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited, a wholly-owned subsidiary of the Company, since 1971 and was appointed as the Chairman in 1993. He was appointed as an Independent Non-executive Director of Cheuk Nang (Holdings) Limited in November 2012. He is also an Independent Non-executive Director of Wheelock and Company Limited.

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

He also serves as a member of a number of other trade organisations and public committees such as The Hong Kong General Chamber of Commerce. He is Life Honorary Court Member of The Hong Kong University of Science and Technology. He also serves as member of the Jiangsu Provincial Committee of Chinese People's Political Consultative Conference.

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

Executive Director

Mrs. Nancy Ting Wang Wan-sun, aged 70, was appointed as a Non-executive Director of the Company in January 2008, and was re-designated as an Executive Director of the Company in February 2009. She has been an Executive Director of Kader Industrial Company Limited, a wholly-owned subsidiary of the Company, since 2001. Mrs. Ting has not held any directorship in other listed public companies in the last three years. She is the wife of Mr. Kenneth Ting Woo-shou, the Chairman and Managing Director of the Company, mother of Mr. Ivan Ting Tien-li, the Non-executive Director of the Company, and auntie of Mr. Bernie Ting Wai-cheung, the Non-executive Director of the Company.

Non-executive Directors

Mr. Ivan Ting Tien-li, aged 42, was appointed as an Executive Director of the Company in April 2006. He was appointed as the Managing Director of the Company in July 2010, and stepped down from that position when he was re-designated as a Non-executive Director of the Company in July 2012. He will be re-designated as an Executive Director of the Company, with effect from 1 April 2018. Mr. Ting holds a Bachelor's Degree in International Politics and Economics. He is one of the authorized representatives of the Company. He has been an Executive Director of Kader Industrial Company Limited, a wholly-owned subsidiary of the Company, since 1998. Apart from this, he also serves as director of certain other subsidiaries of the Company. Mr. Ting currently serves as a General Committee Member of the Hong Kong Exporters' Association. He is the son of Mr. Kenneth Ting Woo-shou, the Chairman and Managing Director of the Company and Mrs. Nancy Ting Wang Wan-sun, an Executive Director of the Company and the cousin of Mr. Bernie Ting Wai-cheung, a Non-executive Director of the Company.

Dr. Moses Cheng Mo-chi, GBM, GBS, OBE, JP, aged 68, was appointed as an Independent Non-executive Director of the Company in March 1999, and was re-designated as a Non-executive Director of the Company in September 2004.

Dr. Cheng is a consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. He is now also serving as chairman of the Insurance Authority and chairman of the Process Review Panel for the Securities and Futures Commission. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited, Towngas China Company Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited, Guangdong Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. Dr Cheng had ceased to be an Independent Non-executive Director of ARA Asset Management Limited (a company formerly listed in Singapore) on 20 April 2017. Save as disclosed above, Dr. Cheng did not hold any directorship, whether in Hong Kong or overseas, in any other public listed companies in the previous three years.

Mr. Bernie Ting Wai-cheung, aged 52, was appointed as a Non-executive Director of the Company in July 2010. He was appointed as a director of Kader Industrial Company Limited since July 2010. He is the Director and General Manager of Qualidux Industrial Company Limited. He studied Mechanical Engineering at the University of Toronto, Canada. He obtained his MBA at Worcester Polytechnic Institute in the USA. He briefly worked in a manufacturing company in Canada. He is now working at Qualidux Industrial Company Limited as the Director and General Manager. Mr. Ting has not held any directorship in other listed public companies in the last three years.

Directors' Report *(Continued)*

Mr. Ting is the Honorary President of Hong Kong Toys Council under the auspices of the Federations of Hong Kong Industries. He became the Vice President of International Council of Toys Industries (ICTI) in 2009 to 2015 and became the Vice President of Asian Committee of Toy Industries in January 2016. He is the Vice President of The Toys Manufacturers' Association of Hong Kong. As part of his public duties in Hong Kong, he is the Chairman of Hong Kong Q-Mark Council and the Vice Chairman of The Hong Kong Standards and Testing Centre Limited. He is the Director of Hong Kong Certification Centre Limited. He is the member of "CreateSmart Initiative" Vetting Committee. Mr. Ting is the Vice President of The Hong Kong Plastics Manufacturers Association Limited. He has been appointed by the Financial Secretary of the Hong Kong Special Administrative Region as member of Standing Committee on Company Law Reform for two years from 1 February 2017 to 31 January 2019. He contributes his spare time to community service through Rotary Club of Hong Kong South.

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

Independent Non-executive Directors

Mr. Floyd Chan Tsoi-yin, aged 74, was appointed as an Independent Non-executive Director of the Company in September 2004. Mr. Chan is a member of the American Institute of Certified Public Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. He had been a partner of BDO Seidman in the United States for many years. He was the Asia Pacific Regional Coordinator of BDO International and a member of BDO McCabe Lo Limited's executive committee in Hong Kong. He has significant experience in assisting clients in exploring business opportunities in the Asia Pacific region, particularly the Southeast Asian developing countries and The People's Republic of China. He is also closely involved with assisting clients in developing business in North America and Europe.

Mr. Andrew Yao Cho-fai, JP, aged 52, was appointed as an Independent Non-executive Director of the Company in September 2004. Mr. Yao, graduated from the University of California, Berkeley and Harvard Graduate School of Business, is the Chairman of Hong Kong Shanghai Alliance Holdings Limited (formerly Van Shung Chong Holdings Limited) (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited).

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

Mr. Desmond Chum Kwan-yue, aged 45, was appointed as an Independent Non-executive Director of the Company in March 2009. Mr. Chum was a portfolio manager at Claren Road Asset Management from 2008 to 2017, a company that provides financial services, and was responsible for building and managing a portfolio of regional corporate and sovereign bonds. Prior to working at Claren Road Asset Management, Mr. Chum was a Managing Director of Citigroup where he spent 12 years and helped to build its fixed income franchise in Asia. He oversaw a team of investment professionals and ran the Global Special Situations Group's investment activities in the Greater China Region. He has extensive experience in sourcing, evaluating and executing private lending, private equity and real estate investments in the Greater China Region. He was appointed as an Independent Non-executive Director of Classified Group (Holdings) Limited since June 2016. Mr. Chum graduated from Oxford University.

Mr. Ronald Montalto, aged 69, was appointed as an Independent Non-executive Director of the Company in April 2009. Mr. Montalto graduated from East Carolina University in 1971. He was also awarded Juris Doctor from Emory University School of Law in 1974. Mr. Montalto was practicing Attorney in Atlanta between 1975 and 1982. Currently, he is Member of State Bar of California (Inactive). After his retirement from Mattel in 2004, Mr. Montalto consulted for Mattel Inc. senior management and developed a plan to relocate all Mattel's European manufacturing operations and back office support to Asia during 2005. He was a Senior Vice President of various Operations at Mattel where he worked for 21 years (15 of which were in Hong Kong) and established Mattel's Asian sourcing unit and was responsible for managing and integrating Mattel Brands' procurement and manufacturing Operations. He was a Director of Business Development at Mattel Far East Operations (Hong Kong) between 1983 and 1987. Since retirement, Mr. Montalto has consulted periodically on sales advisory programs for Teradata, a division of NCR (National Cash Register Corporation). He also conducted an Asian business/supply chain study for Enesco, an industry leading international giftware company headquartered in Chicago and Dansk Investment Group, a California company with manufacturing operations in Shanghai. Mr. Montalto has not held any directorship in other listed public companies in the last three years.

DIRECTORS' SERVICE CONTRACTS

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

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

Directors' Report *(Continued)*

DISCLOSURE OF INTERESTS

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

As at 31 December 2017, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(1) Interests in the Company

	Number of ordinary shares of HK$0.10 each				
Name of directors	Personal interests	Family interests	Corporate interests	Total interests	% of total issued share capital
Kenneth Ting Woo-shou	291,445,941	2,075,183[(i)]	258,963,571[(ii)]	552,484,695	58.12%
Nancy Ting Wang Wan-sun	2,075,183	–	–	2,075,183	0.22%
Ivan Ting Tien-li	21,730,432	–	–	21,730,432	2.29%
Moses Cheng Mo-chi	15,714	–	–	15,714	0.00%
Bernie Ting Wai-cheung	–	–	–	–	–
Floyd Chan Tsoi-yin	–	–	–	–	–
Andrew Yao Cho-fai	–	–	–	–	–
Desmond Chum Kwan-yue	–	–	–	–	–
Ronald Montalto	–	–	–	–	–

Notes:

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

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

(2) Interests in Associated Corporations

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

Notes:

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

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

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

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

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

All the interests stated above represent long positions. As at 31 December 2017, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at 31 December 2017, none of the directors and chief executives of the Company nor their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report *(Continued)*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS

As at 31 December 2017, substantial shareholders and other persons (other than directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which were recorded in the register kept by the Company under section 336 of the SFO were as follows:

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

Notes:

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

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

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

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

Save as disclosed above, as at 31 December 2017, the Company was not notified by any persons (other than directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which were recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

EMOLUMENT POLICY

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

CHANGES IN INFORMATION OF DIRECTOR

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

Dr. Moses Cheng Mo-chi, a Non-executive Director of the Company, had ceased to be an Independent Non-executive Director of ARA Asset Management Limited (a company formerly listed in Singapore) on 20 April 2017.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' Report *(Continued)*

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, Mr. Kenneth Ting Woo-shou and Mr. Bernie Ting Wai-cheung, directors of the Company, are considered to have interests in Qualidux Industrial Company Limited ("Qualidux"), a company engaging in toy manufacturing long before the listing of the Company on the Stock Exchange, which competes or is likely to compete with the business of the Group pursuant to the Listing Rules. Qualidux employed a total workforce of around 800 employees as at 31 December 2017.

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

PUBLIC FLOAT

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

INDEPENDENT AUDITOR

A resolution for the re-appointment of KPMG as independent auditor of the Company will be proposed at the forthcoming annual general meeting.

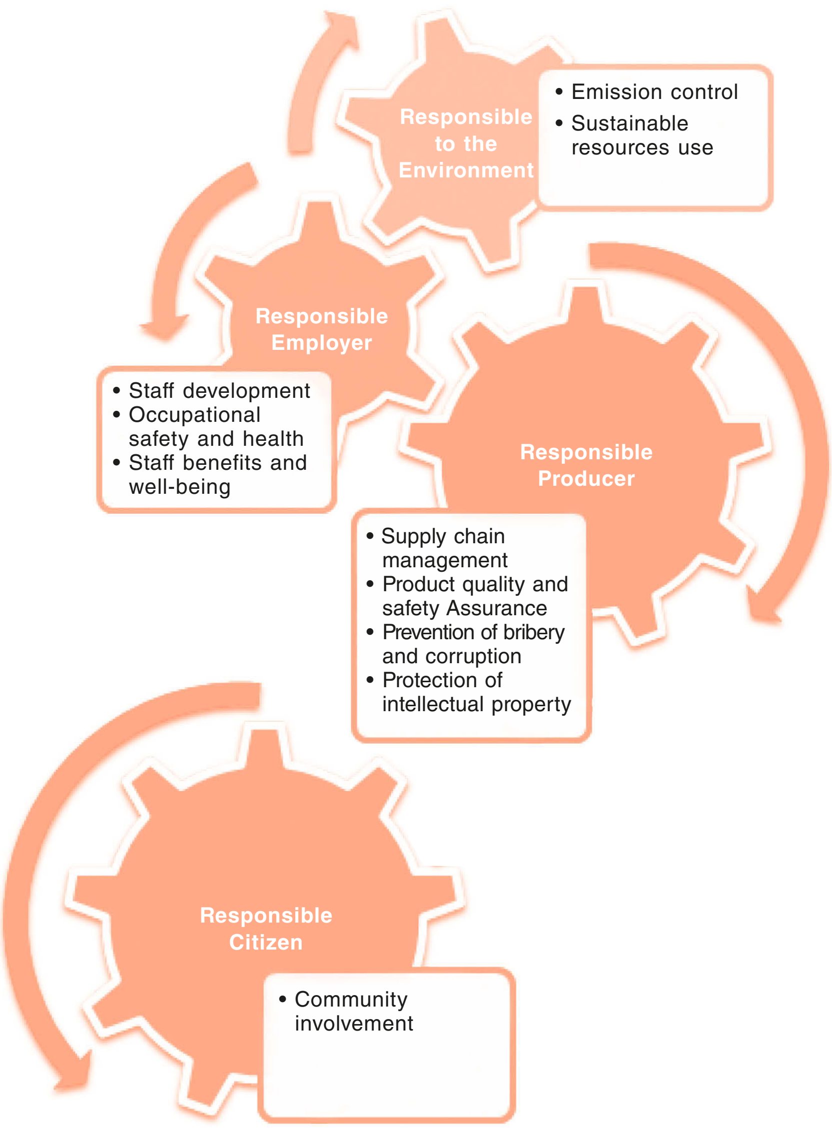
By order of the Board
Kenneth Ting Woo-shou
Chairman

Hong Kong, 28 March 2018

Environmental, Social & Governance Report

The Group has been an industry leader in toys' manufacturing for approximately 70 years. Apart from the continuous pursuit of excellence in product quality, we also have a long history in integrating sustainability as our core in our operations.

We are strongly committed to our employees, our customers, our society and also our environment where we operate in. With the successes we enjoyed over the years, we fully recognize our roles and understand the importance of sustainability to our future. This is why we always work to better and better shoulder our responsibilities, strive to be a responsible company to all our employees, customers, our community and our environment, and create positive values to them.



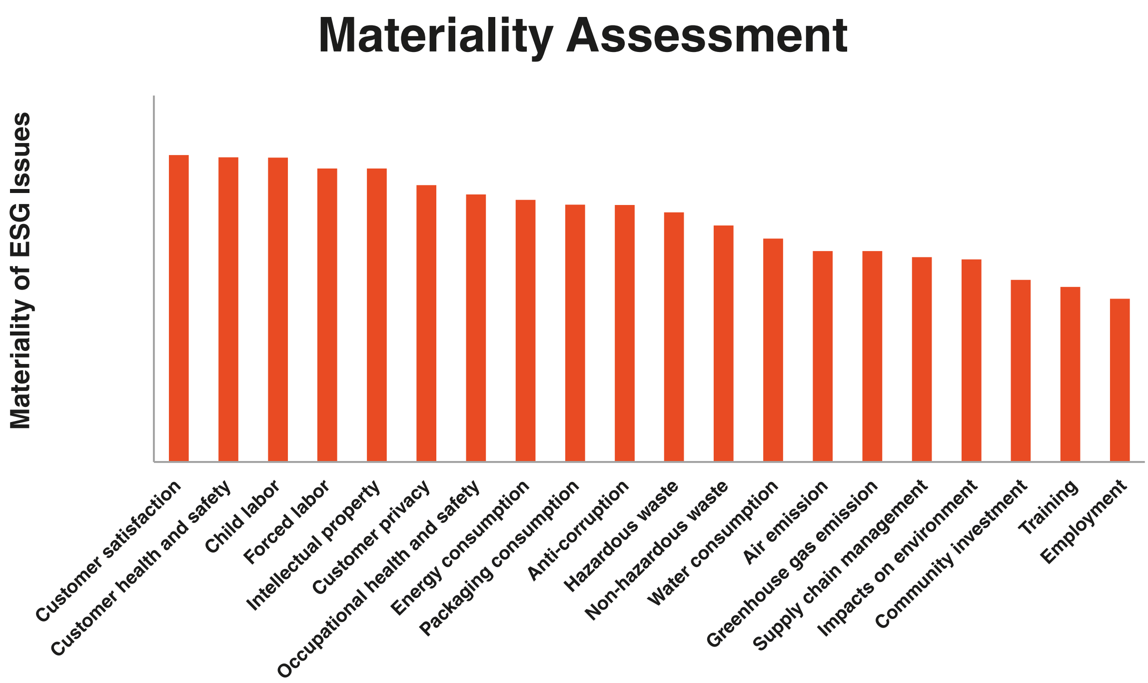
Environmental, Social & Governance Report *(Continued)*

This is the second environmental, social & governance ("ESG") report to present the material ESG issues, ESG performance and the sustainability practices of the Group from 1 January 2017 to 31 December 2017 (the "Reporting Period"). The report was prepared in accordance with Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx"). The scope of the ESG report covers the Group's Hong Kong office and the two main manufacturing facilities of Dongguan Feng Da Electronics Company Limited at Zhong Tang and GaoBu. This is also the first year when we disclose information on the environmental and social key performance indicators ("KPIs"), a development which marks another significant move in our efforts to track and record our ESG issues systematically, further contributing to the continual improvement of our sustainability performance.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

As a publicly listed company, the preference and selection of our stakeholders decide the future successes of our business. Thus, we place great emphasis on engaging and communicating with our stakeholders, to collect their views and opinions, and subsequently to use them in formulating our sustainability framework for continuous improvement of our business.

In order to identify which specific ESG issues are the most material to the Group, we have engaged a third party to conduct an online questionnaire to collect stakeholders' opinions and concerns. The questionnaire contained a set of rating questions that allowed our stakeholders to express the importance and relativity of the 22 sustainability topics; ranging from environmental protection, community, operational practices to employment. Throughout the process, opinions were collected from our key stakeholders including employees, customers and non-governmental organizations. The graph below shows the results of ranking on ESG topics' according to the preference of our stakeholders:



According to the results, the top five key topics identified are:

- Customer satisfaction;
- Customer health and safety;
- Child labor;
- Forced labor; and
- Intellectual property.

With these results in mind, we have prepared our ESG report and will continue to look for opportunities to improve our sustainability performance in the future.

A RESPONSIBLE PRODUCER

As a responsible and leading toys manufacturing company, we are committed to building long-term relationships with our customers and gaining their satisfaction by providing excellent and trustworthy products to them. To achieve this goal, we properly manage our supply chain and ascertain our products quality and safety to meet our customers' expectations through the implementation of various management approaches and practices.

Environmental, Social & Governance Report *(Continued)*

Supply Chain Management

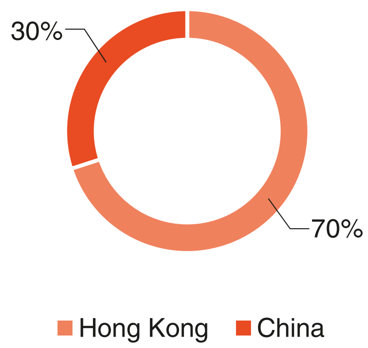
We closely work with a wide range of vendors and suppliers to supply different types of raw materials and assembled parts for our daily toys production. Hence, it is essential to select reliable and competent vendors and suppliers as our business associates and support our business operation.

To select suitable vendors and suppliers carefully, we follow the "Vendors Qualification and Vendor Control Procedure" and carry out qualification assessments to all potential vendors, services providers and subcontractors. All potential vendors are requested to fill in the quality system survey questionnaires, provide certificates of compliance, and submit testing reports and/or reference sample for evaluation of their qualifications. Where necessary, we will arrange onsite inspections to verify their actual quality performance management before approval. Only those who meet our quality requirements will be qualified on our approved vendors list.

Every year, performance appraisals will be conducted to all existing vendors to assess their continuous performance. A corrective action request will be issued in case poor quality performance and non-conformities are identified. For those vendors who have repeatedly quality problems — such as failing to meet our contract requirements, or responding to the committed corrective action request, they will result in disqualification from the approved vendors list.

During the Reporting Period, the Group worked with a total of 10 major suppliers, 70% from Hong Kong and 30% from China.

Number of Suppliers by Geographical Region



Product Quality and Safety Assurance

As mentioned in our Corporate Quality Policy, upholding excellence in our product quality is of our first priority. This mainly includes preventing defects in our products, and making sure that our products are delivered to customers in a timely manner for customer satisfaction.

Corporate Quality Policy

- The Group aims to produce quality products and delivers them on time to our customers
- The Group shall achieve customer satisfaction through its continuous improvement policies

In practice, we have implemented an effective quality management system ("QMS") to address and control our products' quality throughout the manufacturing process systematically. This QMS, conformed to the international ISO 9001 standard, includes clear steps and procedures which help us track and follow local laws and international industrial standards. Thus, we can ensure compliance and continuously improve our product quality with the QMS. Our QMS also prescribes various products inspections — beginning from inspections on incoming materials to quality assurance checks on final products, where stringent quality control inspections are conducted along our production process, to ensure the products' are meeting our desirable quality standards and to fulfill all the acceptance requirements from our clients.

While we strive to achieve excellence in our production, we are also well-prepared in case of any problems with our products. Our "Customer Complain Handling System" helps us properly receive and attend to feedbacks from our customers on all issues related to our products. If it is discovered that our products may pose safety or health risk(s) to our users, following our "Product Recall Procedure", we will recall the products and immediately stop the related production. We will also engage specialists to carry out a comprehensive investigation in order to find out the root causes and impacts of the problems. Furthermore, we will promptly implement corresponding improvement plans, to avoid similar case occurrence and mistakes being made in the future.

Furthermore, to ensure proper and safety use of our products, we have a clear "Product Labelling Policy" to prepare labels and instruction sheets to guide our consumers. The labels with safety alert symbol(s) are adhered and displayed at the outer containers or packaging materials of our toy products with directions on the use of products. Relevant safety precautions and actions should be avoided. Special consideration is given in the design of the product safety statements to make sure they are in conformity with local regulations, and relevant international safety and advisory requirements (e.g. Consumer Product Safety Commission (CPSC), ASTM F963-Standard Consumer Safety Specification for Toy Safety).

Intellectual Property Rights & Confidentiality

Recognizing the importance of originality and business integrity, we highly respect the value of intellectual property ("IP") at the Group, and are determined to protect it. To ensure effective management and protection of IP rights, we have set up the Intellectual Property Safety Management System ("IPSMS") and defined clear roles and responsibilities of the parties involved, including employees at all levels. Through the four-step IPSMS process, i.e. establishment, implementation, evaluation and maintenance, our IP Manager is responsible for overseeing the actual operation and performance on each department, arranging training and polishing the IPSMS, in regard to IP protection. We believe that through this extensive system, IP rights are respected and recognized at the Group, fulfilling our responsibilities to both our business partners and other IP owners. Our employees are prohibited to disclose or exploit any patents and trademarks regardless it is the Group's own IP, or customers' IP, and will subject to disciplinary action or even dismissal for breaching the policy.

Prevention of Bribery and Corruption

We strongly believe that probity and fairness are the foundation of sustainable business development, which also protect the corporate reputation and interests. We are committed to maintaining the highest ethical standard of integrity, fidelity and honesty. Complying with local regulations and laws, we prohibit any forms of fraud, bribery, extortion, and money laundering at the Group. To achieve this objective, we have developed the "Code of Integrity" which details the principles of how to perform ethically in our business operations for all employees.

Staff members are not allowed to solicit or receive any gifts, rewards or advantages from external parties. Breaching the Group's policy will lead to disciplinary action, as stated in the Employee Handbook. All employees must sign the "Code of Integrity" before commencement of employment to ensure their clear understanding of the Group's policy and the consequences in breaching the Code. In case of any suspicious activities, employees are encouraged to report to our management staff where investigations will be promptly taken.

A RESPONSIBLE EMPLOYER

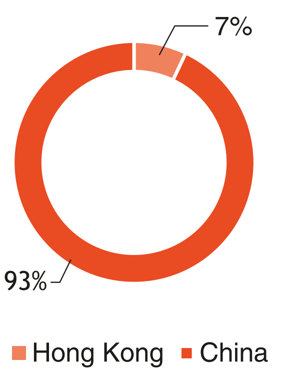
We always believe that people are our most valuable assets and thus we strive to create values for our employees by recognizing their contributions, offering sufficient opportunities and establishing a fair and safe working environment. We wish that the employment of every employee at the Group is satisfying and rewarding. During the Reporting Period, no violations of applicable laws and regulations on working hours, salary, benefits and other employment matters were found.

The Workplace

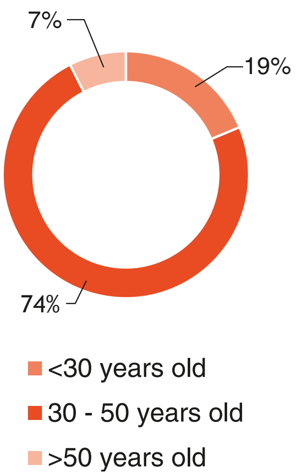
As a responsible corporation, we believe our responsibility extends beyond mere compliance with related laws and regulations. While we comply with all local laws and regulations on working hours, salary, benefits and other employment matters, we strive to do more, give more, and achieve more with our employees.

As of 31 December 2017, the Group had a total of 1,576 employees, who are distributed in Hong Kong and China, accounting for 7% and 93% of the total workforce respectively. The proportion of male to female employees is 3:4. There are 295 employees aged below 30, which is about 19% of the total workforce. The groups of aged 30-50 and aged above 50 represent 74% and 7% of the total workforce respectively.

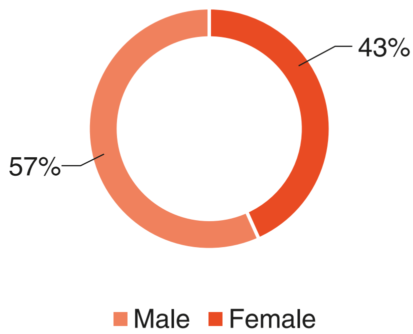
Geographical Distribution



Age Profile



Gender Profile



We offer competitive remuneration package to our staff, which includes a range of benefits and leaves to reward their contributions to the Group. Our benefits include medical benefit, personal accident insurance, business trip subsidies and lunch/supper subsidies. In addition to annual leaves and statutory holidays, we offer bereavement leave, maternity leave, paternity leave and jury duty leave.

The use of child and forced labor is not tolerated within the Group. At the beginning of the employment process, identification documents are checked to ensure that applicants have reached the required legal age to work. Frequent investigations are also conducted by our Human Resources Department to ensure compliance. During the Reporting Period, no cases of child and forced labor were observed within the Group.

Creating a fair and harassment-free working environment, as well as setting an example for our employees and industry peers, is our long-term goal. All employees and job applicants are treated in a fair way, regardless of race, sex, marital status, pregnancy, disability status, throughout the employment process. No discriminatory practices are accepted in our workplace. Aiming to set examples for our employees and our peers in the industry, we have installed facilities at our offices to make it more user-friendly for disabled employees.

Environmental, Social & Governance Report *(Continued)*

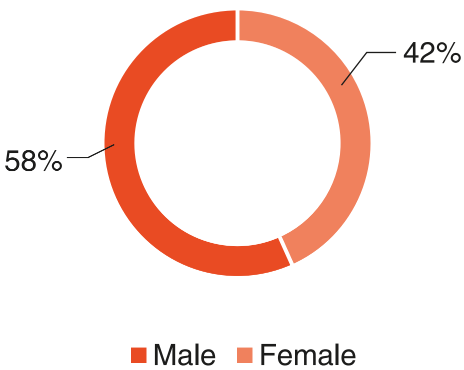
Staff Development

The Group understands the importance of continuous personal development of our staff members, and thus actively encourage our staff members to further develop their strengths and potentials through receiving various training and development programs, such that they can continue to grow with the Company.

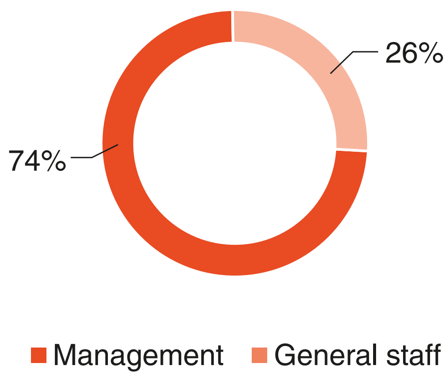
All new hires are required to go through our orientation training to help them swiftly adapt to the new working environment. Key topics covered in the orientation include the Group's core business operations, policies and culture. For employees appointed at specific technical positions, they are further provided with specialist training in acquiring necessary skills and knowledge to perform in their work.

Annual training policies and development plans are formulated according to the Group's strategy, departmental needs, job nature requirements and employees' needs in order to enhance our service/product quality and maximize staffs' potentials. Over the year, we have arranged a series of training activities on various topics such as computer software, machine operation, interpersonal skill and leadership building. During the Reporting Period, the Group has provided a total of 976 hours of training, 0.67 hours per employee in mainland China.

Percentage of Employees Trained by Gender



Percentage of Employees Trained by Employee Category



Apart from internal training opportunities, we encourage employee to raise their work-related skills and knowledge by sponsoring tuition fee for external training programs. Subsidies will be provided for employees who can demonstrate potentials to attend academic-bearing training courses.

We provide opportunities for employees to develop and utilize their potentials. In recognition to their contribution, employees who meet the goals and objectives of the Group will be promoted through regular appraisals.

Occupational Health and Safety

We believe a safe and healthy working environment is crucial for our employees. To achieve this goal, we have set up a comprehensive set of Environmental, Health and Safety ("EHS") polices to address various types of potential hazards, such as the procedures for hazardous waste disposals, air management, fire evacuation plan and production safety. These potential hazards are identified via our workplace risk assessments. Our EHS committee conducts regular internal inspections to ensure the effectiveness of the procedures. At our factories, all employees are required to attend and pass safety-related courses such as fire safety, anti-terrorism, Electronic Industry Citizenship Coalition ("EICC") and ISO before entry. Regular training and promotion are also offered to raise awareness among our employees. In case of any accidents or injuries of employees, our factories will follow procedures and investigate the causes of the accidents, as well as formulate corresponding actions or improvement, in order to prevent similar incidents from happening in the future.

During the Reporting Period, the work-related fatalities rate was 0 and 116 leave days were applied due to reported work-related injuries. We will continue to review and improve our occupational health and safety management in the entire production process.

Care for Our Employees

We do not encourage overtime work unless it is approved by the Department Head in advance and there is an operational need. Leave will be offered to compensate overtime work. Supper is also available for employees who continue to work after office hours.

Understanding the needs of our employees, we also provide dormitories for staff in need at our factories. In addition, we also value communication with our employees and encourage them to raise suggestions and complaints through multiple channels.

Hong Kong Office's canteen provides subsidized lunch for all employees at a preferential price. We strive to keep the cost of meal at the lowest level in order to alleviate employees' burden. A suggestion box is also placed in the canteen to collect employees' feedbacks and suggestions.

To promote a good work-life balance and to build a sense of belonging in the Group, we have arranged some social activities to let our employees relax from work and establish a bond among fellow colleagues. For instance, Chinese New Year Dinner and Christmas Party are held to celebrate these festivals with our employees as to recognize their hard works. Likewise, throughout the year we highly encourage our staff to participate in leisure and cultural activities, by offering free tickets to carnivals, expos, exhibitions and philharmonic orchestra concerts so that our staff can fully enjoy their free time.

RESPONSIBLE TO THE ENVIRONMENT

Being engaged in the toy manufacturing businesses, we mainly rely on natural resources extracted from the natural environment for our production. At the same time, we also contribute to certain emissions to the environment through our operations. To prevent generating significant adverse impacts to the environment, we have established an Environmental Health and Safety Committee and devised a comprehensive set of policies and procedures on environment, health and safety ("EHS") to effectively manage environmental issues along our production. Furthermore, the committee monitors the overall EHS performance throughout the manufacturing facilities by regular inspections, to ensure compliance with the relevant local environmental laws and regulations and corporate environmental standards. During the Reporting Period, no non-compliance cases regarding to the air emission, wastewater discharge and waste disposal were identified.

Environmental Policy

- Build a green corporate culture and improve corporate environment
- Implement clean production
- Utilize resources sustainably and efficiently

Emission Control

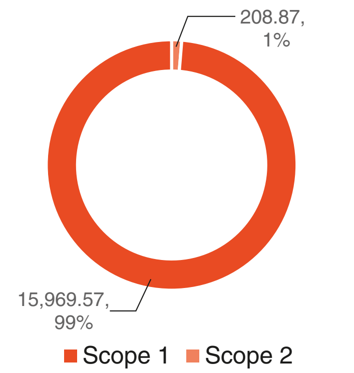
Air Emission

Volatile organic compounds ("VOC") and particulates are the major sources of air pollutants generated in our operation, mainly from plastic moulding, paint spraying and tin welding process. In addition, oil fume emitted from the staff kitchen is the other important air emission from our factory.

To minimize negative impacts of the emissions to air quality, water-based paints and environmentally friendly paints with low VOCs content are utilized in our production process. All the exhaust gases containing VOCs from production processes are centrally collected and treated by our in-house air treatment facility, which is equipped with activated carbon absorber for trapping of VOCs. This facility helps us make sure that the VOCs levels in the emitted air are well below the legal requirements. Likewise, oil mist separators have been installed in our staff kitchen to minimize impacts in relation to emissions of oil fumes. Regular inspections on the quality of the emitted air are conducted by a third party to make sure the levels of air pollutants are complied with the national environmental laws and regulations.

Greenhouse Gas Emissions

We understand our operations are consuming energy and generating greenhouse gas emissions which have contributed to global warming and climate change. We thus strive to reduce our carbon emissions by conserving our energy and resources utilization. During the Reporting Period, we have emitted a total of 16,178.44 tCO_2e of greenhouse gas, contributed by the use of electricity, fuels and refrigerant.

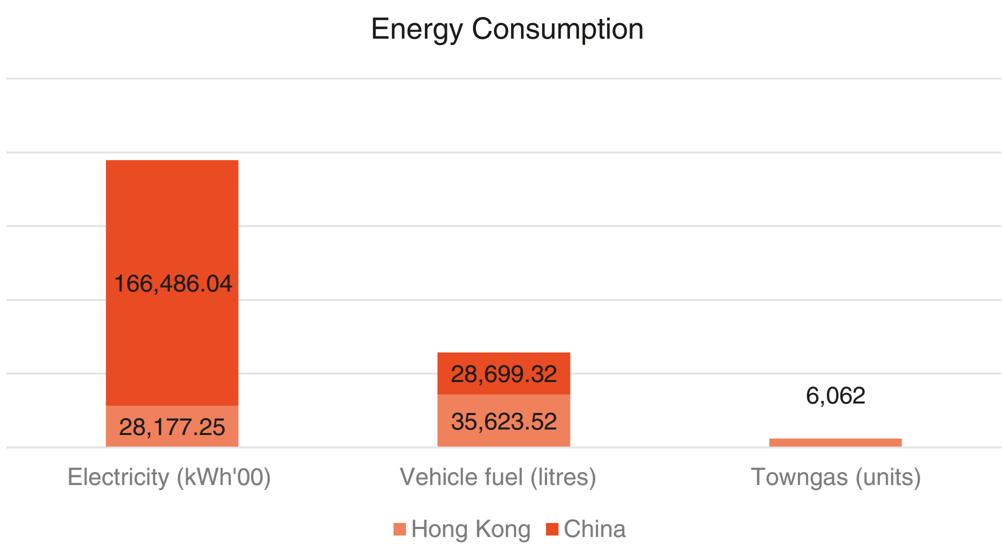


Sustainable Resources Use

Adhering to our environmental policy, we strive to utilize our resources sustainably and maximize our resource efficiency by application of 3Rs ("Reduce, Reuse and Recycle") principles across our operations.

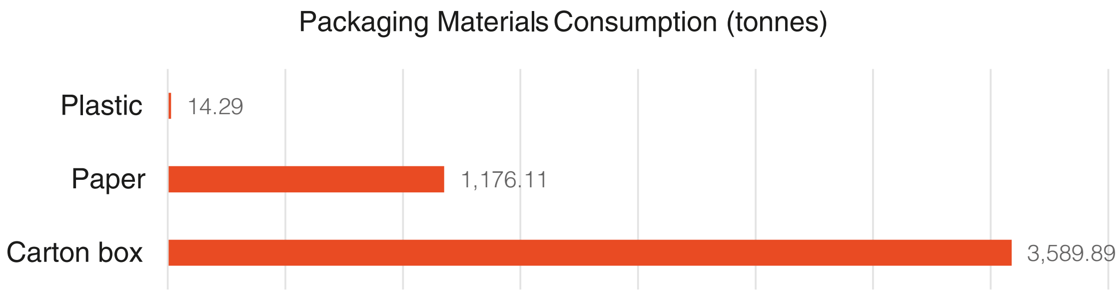
Energy Use

Electricity and fuels are the types of energy that we have consumed in our daily operation and production. We have measured and recorded our energy consumption systematically to understand the trend and pattern of energy use in our operations. During the Reporting Period, the Group consumed a total of 19,466,329.00 kWh of electricity, 64,322.84 litres of vehicle fuel and 6,062 units of towngas. These figures helped the Group understand and develop proper strategy and targets on energy use, such as adjusting our production process to improve the energy efficiency, and to deploy better machineries for better energy saving, etc. Additionally, we adopt a list of "green" practices at our factories and offices to cultivate a green corporate culture. For example, we maintain an average indoor temperature at 25 degree Celsius at the workplace; we use electrical appliances with high energy efficiency; and we post energy saving signs around the workplace to remind employees of turning off electrical appliances when they are not in use.



Materials Use

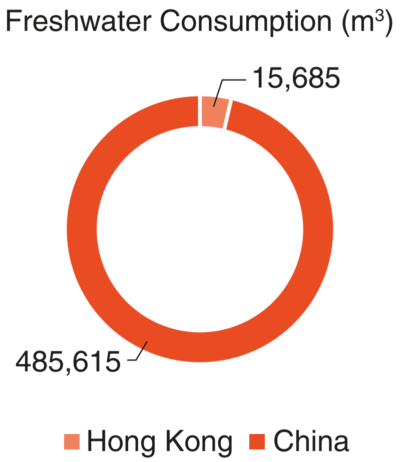
During the Reporting Period, we consumed a total of 6.34 tonnes of paper in our office and factories. In addition, our production inevitably involves the use of packaging materials including carton box, paper and plastic. During the Reporting Period, a total of 4,780.29 tonnes of packaging materials was consumed.

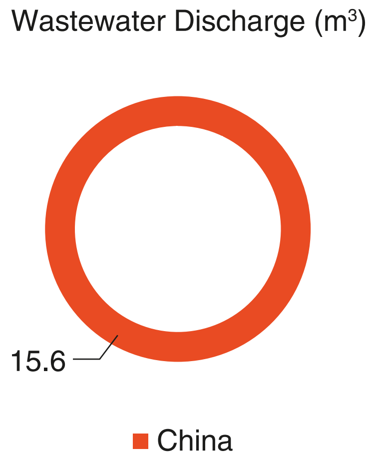


Water Consumption and Discharge

Water is a precious resource that we all need to conserve. During our production, the plastic moulding process relies on the use water for cooling. Similarly, the operation of air treatment facility in paint spraying and staff kitchen also requires to the use of water. In order to reduce our demands on water, the residual hot water or wastewater generated after the cooling process is being recycled and reused in the production processes after necessary water treatment. Also, signs for water saving are also posted next to our water supply facilities to remind our staff of reducing water use.

We generate limited industrial wastewater from our operations. Most of the wastewater generated from the staff kitchen is treated to acceptable level by an installed oil and grease trap and our in-house wastewater treatment facility before discharge. Regular inspections on the discharged water quality are carried out by a third party to ensure the level of pollutants discharge to the water body is complied with the national standards.





During the Reporting Period, the total water consumption and wastewater discharge were 501,300.00 m^3 and 15.60 m^3 respectively.

Waste Management

In order to minimize the negative impacts on the environment due to waste disposal from our production, we have developed a waste management procedure to reuse and recycle the useful materials, to handle the waste appropriately and to ensure compliance with the relevant environmental laws and regulations. During the Reporting Period, the total amounts of hazardous and non-hazardous waste generated were 7,400.00 litres and 196.88 tonnes respectively.

Waste Segregation	• Wastes are classified to hazardous and non-hazardous wastes
Waste Storage	• Each type of wastes is stored properly in designated areas
Waste Handling	• Hazardous and non-hazardous waste are consigned to licensed waste collectors/recyclers for collection and processing

Waste generated from our production processes include some hazardous wastes such as organic solvents, waste paint and ink, where they are properly segregated and stored in our designated storage areas. These hazardous wastes are further consigned to the licensed waste collector for further handling and treatment.

Non-hazardous wastes such as paper, packaging material, metal, carton and general waste, are segregated into recyclable and non-recyclable materials and stored in different containers. All the materials are reused as much as we possibly can before disposal or recycling. The collected recyclable waste is being recycled by licensed waste recyclers.

A RESPONSIBLE CITIZEN

With almost 70 years of successful businesses, the Group fully appreciate the supports from the communities, and the Group is committed to give back to the communities as much as we are capable of. During 2017, we actively give out donations to education institutions, charitable organizations and hospitals, etc., such as the Polytechnic University, the Community Chest of Hong Kong, Food for Good and Hong Kong Adventist Hospital, etc. The total contribution made by the Group is HK$1,575,400 during the Reporting Period. Looking ahead, the Group will continue to look for areas and opportunities where it can contribute more, and to develop a long term policy to realise its' commitments.

APPENDIX: PERFORMANCE DATA SUMMARY

	Unit	2017
Total number of employees	–	1,576
By gender		
Male	–	682
Female	–	894
By employment type		
Permanent	–	1,576
Temporary	–	0
By age		
<30 years old	–	295
30 – 50 years old	–	1,163
>50 years old	–	118
By geographical region		
Hong Kong	–	111
China	–	1,465
Occupational health and safety performance		
Number of work-related fatalities	–	0
Rate of work-related fatalities	–	0
Lost days due to work-related injury	–	116
Training and development[1]		
Number of employee trained by gender		
Male	–	618
Female	–	847
Number of employee trained by employee category		
Management	–	386
General staff	–	1,079
Average training hours by gender		
Male	hours	0.67
Female	hours	0.67
Average training hours by employee category		
Management	hours	0.73
General staff	hours	0.64
Total number of suppliers	–	10
By geographical region		
Hong Kong	–	7
China	–	3

	Unit	2017
Total resource consumption		
Electricity	kWh	19,466,329.00
Towngas	units	6,062.00
Unleaded petrol	litres	42,286.05
Diesel oil	litres	22,036.79
Total material use		
Office paper	tonnes	6.34
Total packaging materials	tonnes	4,780.29
Carton box	tonnes	3,589.89
Plastic	tonnes	14.29
Paper	tonnes	1,176.11
Total waste generation		
Hazardous waste		
Chemical waste	litres[2]	7,400.00
Non-hazardous waste		
Waste paper	tonnes	196.60
Food waste[3]	tonnes	0.28
Water resources		
Freshwater consumption	m^3	501,300.00
Wastewater discharge[4]	m^3	15.60
Total greenhouse gas emissions	tCO_2e	16,178.44
Scope 1		
Stationary source	tCO_2e	15.48
Vehicle source	tCO_2e	180.72
Use of refrigerant	tCO_2e	12.67
Scope 2		
Use of towngas	tCO_2e	3.67
Use of electricity	tCO_2e	15,965.90

1 Data on training and development only cover the two main manufacturing facilities of Dongguan Feng Da Electronics Company Limited at Zhong Tang and GaoBu.

2 For hazardous waste, it is consisted of chemical wastes and the measurement unit is "drum". One drum is equivalent to 200 litres.

3 The food waste is collected by the licensed waste collector for recycling.

4 Data for operations in China only.

Environmental, Social & Governance Report *(Continued)*

HKEX ESG REPORTING GUIDE INDEX

HKEX ESG Reporting Guide General Disclosures		Policies & Procedures	Explanation/ Reference section
Aspect A – Environmental			
A1 Emission	Information on: – the policies; and – compliance and material non-compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.	EHS Handbook Hazardous Waste Management Plan	RESPONSIBLE TO THE ENVIRONMENT – Emission Control
A2 Use of Resource	Policies on efficient use of resources including energy, water and other raw materials.	EHS Handbook	RESPONSIBLE TO THE ENVIRONMENT – Sustainable Resources Use, Material Use
A3 The Environment and Natural Resources	Policies on minimizing the operation's significant impact on the environment and natural resources.	EHS Handbook	RESPONSIBLE TO THE ENVIRONMENT
Aspect B – Social			
B1 Employment	Information on: – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employee Handbook	A RESPONSIBLE EMPLOYER – The Workplace

HKEX ESG Reporting Guide General Disclosures		Policies & Procedures	Explanation/ Reference section
B2 Health and Safety	Information on: – the policies; and – compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards.	EHS Handbook	A RESPONSIBLE EMPLOYER – Occupational Health and Safety
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Training refers to vocational training. It may include internal and external courses paid by the employer.	Employee Handbook	A RESPONSIBLE EMPLOYER – Staff Development
B4 Labor Standard	Information on: – the policies; and – compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labor.	Employee Handbook	A RESPONSIBLE EMPLOYER – The Workplace
B5 Supply Chain Management	Policies on managing environmental and social risks of supply chain.	Procurement Procedures Vendor Control and Qualification Procedures	A RESPONSIBLE PRODUCER – Supply Chain Management

HKEX ESG Reporting Guide General Disclosures		Policies & Procedures	Explanation/ Reference section
B6 Product Responsibility	Information on: – the policies; and – compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Product Monitoring Procedure IP Manual Product Recall Procedure	A RESPONSIBLE PRODUCER – Product Quality and Safety Assurance
B7 Anti-corruption	Information on: – the policies; and – compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.	Employee Handbook Code of Integrity	A RESPONSIBLE PRODUCER – Prevention of Bribery and Corruption
B8 Community Investment	Policies on community engagement to understand the community's needs where it operates and to ensure its activities take into consideration communities' interests.	N/A	A RESPONSIBLE CITIZEN

Independent Auditor's Report

KPMG

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

OPINION

We have audited the consolidated financial statements of Kader Holdings Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 55 to 141, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditor's Report *(Continued)*

KEY AUDIT MATTERS *(Continued)*

Valuation of investment properties

Refer to note 11 to the consolidated financial statements and the accounting policies on page 65 and 66.

The Key Audit Matter

At 31 December 2017 the Group held investment properties, which comprised an industrial building located in Hong Kong, with a fair value of HK$1,803 million and which accounted for 69% of the Group's total assets at that date.

The fair value of the investment properties at 31 December 2017 was assessed by the directors primarily based on an independent valuation report prepared by a firm of qualified external property valuers.

The net change in fair value of investment properties recorded in the consolidated statement of profit or loss represented 57% of the Group's profit for the year ended 31 December 2017.

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

How the matter was addressed in our audit

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

- obtaining and inspecting the valuation report prepared by the external property valuers engaged by management and on which the directors' assessment of the fair value of investment properties was based;

- assessing the external property valuers' qualifications, experience and expertise in the location and type of property subject to valuation and considering their objectivity and independence;

- with the assistance of our internal property valuation specialists, discussing with the external property valuers, without the presence of management, their valuation methodology with reference to the requirements of the prevailing accounting standards and challenging the key estimates and assumptions adopted in the valuation by comparing capitalisation rates, prevailing market rents and comparable market transactions with the available market data and by utilising the industry knowledge and experience of our internal property valuation specialists; and

- comparing tenancy information, including committed rents and occupancy rates, provided by the Group to the external property valuers with underlying contracts and related documentation, on a sample basis.

KEY AUDIT MATTERS *(Continued)*

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

Refer to note 11 to the consolidated financial statements and the accounting policies on pages 66 and 67.

The Key Audit Matter

The carrying value of the Group's property, plant and equipment amounted to HK$123 million at 31 December 2017. The Group's property, plant and equipment principally comprised land and buildings together with plant and equipment used in the toys and model trains segment of the Group.

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

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

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

How the matter was addressed in our audit

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

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

Independent Auditor's Report *(Continued)*

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Independent Auditor's Report *(Continued)*

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

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

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 HK$'000	2016 HK$'000
Revenue	3,10	**823,451**	753,545
Other income	4	**26,078**	7,751
Changes in inventories of finished goods and work in progress		**(33,328)**	(16,704)
Cost of purchase of finished goods		**(24,673)**	(14,545)
Raw materials and consumables used		**(204,653)**	(179,755)
Staff costs	5(b)	**(232,977)**	(239,758)
Depreciation	11	**(28,483)**	(31,640)
Other operating expenses		**(160,195)**	(176,527)
Profit from operations		**165,220**	102,367
Finance costs	5(a)	**(7,152)**	(9,557)
Share of profits less losses of associates	14	**10,323**	12,376
Impairment loss of loans to an associate	5(c)	**–**	(711)
Surplus on revaluation of investment properties	11	**186,372**	57,724
Profit before taxation	5	**354,763**	162,199
Income tax expense	6	**(26,956)**	(38,651)
Profit for the year		**327,807**	123,548
Attributable to:			
Equity shareholders of the Company		**321,748**	122,905
Non-controlling interests		**6,059**	643
Profit for the year		**327,807**	123,548
Earnings per share	9		
Basic		**33.85¢**	12.93¢
Diluted		**33.85¢**	12.93¢

The notes on pages 61 to 141 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 HK$'000	2016 HK$'000
Profit for the year		**327,807**	123,548
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, net of HK$Nil tax		**9,314**	(21,084)
Available-for-sale securities, net of HK$Nil tax:			
– changes in fair value during the year		**5,558**	672
– reclassification adjustments for amounts transferred to profit or loss	4	**(349)**	–
Total comprehensive income for the year		**342,330**	103,136
Attributable to:			
Equity shareholders of the Company		**336,089**	102,782
Non-controlling interests		**6,241**	354
Total comprehensive income for the year		**342,330**	103,136

The notes on pages 61 to 141 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2017
(Expressed in Hong Kong dollars)

	Note	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Non-current assets			
Investment properties	11	**1,802,845**	1,616,473
Other property, plant and equipment	11	**123,392**	130,559
		1,926,237	1,747,032
Intangible assets	12	**1,041**	1,679
Interest in associates	14	**64,052**	53,845
Non-current financial assets	16	**28,828**	8,608
Deposits and prepayments	15	**16,151**	–
Deferred tax assets	22(b)	**11,633**	9,985
		2,047,942	1,821,149
Current assets			
Inventories	17(a)	**274,695**	293,026
Current tax recoverable	22(a)	**62**	–
Loans to an associate	14	**25,874**	22,556
Trade and other receivables	18	**173,752**	143,472
Cash and cash equivalents	19(a)	**91,591**	62,157
		565,974	521,211
Current liabilities			
Trade and other payables	20	**129,609**	140,164
Bank loans	21	**279,795**	329,585
Current tax payable	22(a)	**41,724**	41,792
		451,128	511,541
Net current assets		**114,846**	9,670

Consolidated Statement of Financial Position *(Continued)*

At 31 December 2017
(Expressed in Hong Kong dollars)

	Note	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Total assets less current liabilities		**2,162,788**	1,830,819
Non-current liabilities			
Bank loans	21	**3,118**	–
Deferred rental expenses	23	**3,767**	3,845
Rental deposits	24	**5,673**	2,720
Deferred tax liabilities	22(b)	**19,905**	21,770
Accrued employee benefits	25	**22**	251
		32,485	28,586
NET ASSETS		**2,130,303**	1,802,233
CAPITAL AND RESERVES			
Share capital	26(c)	**95,059**	95,059
Reserves		**2,032,307**	1,710,477
Total equity attributable to equity shareholders of the Company		**2,127,366**	1,805,536
Non-controlling interests		**2,937**	(3,303)
TOTAL EQUITY		**2,130,303**	1,802,233

Approved and authorised for issue by the Board of Directors on 28 March 2018

Kenneth Ting Woo-shou
Director

Nancy Ting Wang Wan-sun
Director

The notes on pages 61 to 141 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Land and buildings revaluation reserve HK$'000	Fair value reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
		Attributable to equity shareholders of the Company										
Balance at 1 January 2016		95,059	185,138	10,815	173,397	(56,946)	62,667	(779)	1,247,662	1,717,013	445	1,717,458
Changes in equity for 2016:												
Profit for the year		–	–	–	–	–	–	–	122,905	122,905	643	123,548
Other comprehensive income		–	–	–	–	(20,795)	–	672	–	(20,123)	(289)	(20,412)
Total comprehensive income		–	–	–	–	(20,795)	–	672	122,905	102,782	354	103,136
Dividends approved in respect of the previous year	*26(b)(ii)*	–	–	–	–	–	–	–	(14,259)	(14,259)	–	(14,259)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(4,102)	(4,102)
Balance at 31 December 2016 and 1 January 2017		**95,059**	**185,138**	**10,815**	**173,397**	**(77,741)**	**62,667**	**(107)**	**1,356,308**	**1,805,536**	**(3,303)**	**1,802,233**
Changes in equity for 2017:												
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**321,748**	**321,748**	**6,059**	**327,807**
Other comprehensive income		**–**	**–**	**–**	**–**	**9,132**	**–**	**5,209**	**–**	**14,341**	**182**	**14,523**
Total comprehensive income		**–**	**–**	**–**	**–**	**9,132**	**–**	**5,209**	**321,748**	**336,089**	**6,241**	**342,330**
Dividends approved in respect of the previous year	*26(b)(ii)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(14,259)**	**(14,259)**	**–**	**(14,259)**
Deregistration of a non-wholly owned subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Balance at 31 December 2017		**95,059**	**185,138**	**10,815**	**173,397**	**(68,609)**	**62,667**	**5,102**	**1,663,797**	**2,127,366**	**2,937**	**2,130,303**

The notes on pages 61 to 141 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 HK$'000	2016 HK$'000
Operating activities			
Cash generated from operations	19(b)	**180,040**	119,272
Tax paid:			
Hong Kong Profits Tax paid		**(27,851)**	(25,778)
Tax outside Hong Kong paid		**(3,867)**	(541)
Net cash generated from operating activities		**148,322**	92,953
Investing activities			
Payment for the purchase of property, plant and equipment		**(20,755)**	(21,653)
Proceeds from sale of available-for-sale securities		**1,771**	–
Payment for purchase of available-for-sale securities		**(16,489)**	(3,900)
Payment for purchase of intangible assets		**–**	(1,823)
Proceeds from sale of property, plant and equipment		**1,334**	59
Increase in non-current deposits and prepayments		**(16,151)**	–
Interest received		**2,034**	1,305
Deregistration of a non-wholly owned subsidiary		**(1)**	–
Dividend received from an associate		**877**	–
Increase in amounts due from associates		**(761)**	(826)
(Increase)/decrease in loans to an associate		**(3,318)**	4,411
Net cash used in investing activities		**(51,459)**	(22,427)
Financing activities			
Dividends paid to non-controlling interests		**–**	(4,102)
Proceeds from new bank loans	19(c)	**212,524**	406,234
Repayment of bank loans	19(c)	**(259,196)**	(443,095)
Interest paid	19(c)	**(7,152)**	(9,557)
Dividend paid to equity shareholders of the Company	26	**(14,259)**	(14,259)
Net cash used in financing activities		**(68,083)**	(64,779)
Net increase in cash and cash equivalents		**28,780**	5,747
Cash and cash equivalents at 1 January		**62,157**	59,260
Effect of foreign exchange rate changes		**654**	(2,850)
Cash and cash equivalents at 31 December	19(a)	**91,591**	62,157

The notes on page 61 to 141 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

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

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

– financial instruments classified as available-for-sale securities (see note 1(f)).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

(c) Subsidiaries and non-controlling interests

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

(d) Associates

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates *(Continued)*

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

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

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

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

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in debt and equity securities

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

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

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

When the investments are derecognised or impaired (see note 1(k)(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Investment properties

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

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

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment properties *(Continued)*

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

(h) Other property, plant and equipment

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

– land and buildings held for own use; and

– other items of plant and equipment.

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

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

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

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

(ii) Freehold land is not depreciated.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

(i) Intangible assets (other than goodwill)

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

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

– Club memberships 20 years

– Licensing rights 3 to 5 years

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

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

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(i) Classification of assets leased to the Group

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

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

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

(ii) Assets acquired under finance leases

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(iii) Operating lease charges

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

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

(k) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

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

– significant financial difficulty of the debtor;

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For interest in associates (accounted for under the equity method in the consolidated financial statements (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

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

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

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

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

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets

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

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

– construction in progress;

– intangible assets;

– goodwill; and

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

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

– Calculation of recoverable amount

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in profit or loss and other comprehensive income and not profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Inventories

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

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

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

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

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment of doubtful debts.

(n) Interest-bearing borrowings

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

(o) Trade and other payables

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Cash and cash equivalents

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

(q) Employee benefits

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

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

(ii) Termination benefits

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

(r) Income tax

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

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

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

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

  – the same taxable entity; or

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

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(i) Financial guarantees issued (Continued)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

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

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

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

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

(v) Material charges

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(v) Borrowing costs

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Financial Statements *(Continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 19(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative,* which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

3 REVENUE

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

Revenue represents the sales value of goods supplied to customers and rental income during the year. The amount of each significant category of revenue is as follows:

	2017	2016
	HK$'000	*HK$'000*
Sales of goods	**771,048**	702,680
Gross rentals from investment properties	**52,403**	50,865
	823,451	753,545

The Group's customer base is diversified and includes one (2016: one) customer with whom transactions have exceeded 10% of the Group's revenue. In 2017, revenue from sales of toys and model trains to this customer (2016: one), including sales to entities which are known to the Group to be under common control of this customer, amounted to approximately HK$438,576,000 (2016: HK$364,852,000) and arose in the North America (2016: North America) geographical region in which the toys and model trains division is active. Details of concentrations of credit risk arising from this customer are set out in note 27(a).

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

4 OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Interest income from loans to an associate	**1,367**	1,159
Interest income from available-for-sale debt securities	**148**	73
Other interest income	**519**	73
	2,034	1,305
Air conditioning, management and maintenance service charges from tenants	**6,245**	6,149
Material charges	**317**	1,821
Written back of trade and other payables	**13,139**	–
Net gain/(loss) on disposal of property, plant and equipment	**1,078**	(211)
Net exchange loss	**(642)**	(4,280)
Available-for-sale equity securities: reclassified from equity on disposal	**349**	–
Others	**3,558**	2,967
	26,078	7,751

5 PROFIT BEFORE TAXATION

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

	2017	2016
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank loans and other borrowings *(note 19(c))*	**7,152**	9,557
(b) Staff costs		
Salaries, wages and other benefits	**214,555**	221,685
Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$3,000 (2016: HK$2,000)	**18,422**	18,073
	232,977	239,758

5 PROFIT BEFORE TAXATION *(Continued)*

	2017 HK$'000	2016 HK$'000
(c) Other items		
Amortisation of intangible assets *(note 12)*	**732**	1,475
Depreciation *(note 11)*		
– owned assets	**28,483**	31,640
Impairment losses		
– property, plant and equipment *(note 11)*	**3,133**	428
– trade debtors *(note 18(b))*	**1,659**	1,969
– loans to an associate	**–**	711
	4,792	3,108
Operating lease charges		
– rental of land and buildings	**20,545**	21,179
– other rentals	**130**	72
	20,675	21,251
Auditors' remuneration		
– audit services	**4,274**	4,046
– tax services	**857**	666
	5,131	4,712
Cost of inventories *(note 17(b))*	**484,390**	450,055
Rental receivable from investment properties less direct outgoings of HK$4,209,000 (2016: HK$3,762,000)	**(48,194)**	(47,103)

Cost of inventories includes HK$144,993,000 (2016: HK$151,739,000) relating to staff costs, depreciation charges, impairment loss in respect of property, plant and equipment and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the consolidated statement of profit or loss for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2017	2016
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**25,690**	27,975
Over-provision in respect of prior years	**(2,145)**	(2,045)
	23,545	25,930
Current tax – Outside Hong Kong		
Provision for the year	**8,492**	14,986
(Over)/under-provision in respect of prior years	**(1,568)**	269
	6,924	15,255
Deferred tax *(note 22(b))*		
Origination and reversal of temporary differences	**(3,513)**	(2,534)
	26,956	38,651

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

The Corporate Income Tax ("CIT") rate applicable to subsidiaries registered in the People's Republic of China ("PRC") is 25% (2016: 25%).

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

During the year ended 31 December 2017, the British Government announced a reduction in the corporation tax rate applicable to the Group's operations in the United Kingdom (the "UK") from 20% to 19% (2016: 20.25% to 20%). The reduction has been taken into account in the preparation of the Group's financial statements. Accordingly, the deferred tax balances related to the Group's operations in the UK as at 31 December 2017 were calculated using a tax rate of 19% (2016: 20%).

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

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

	2017	2016
	HK$'000	*HK$'000*
Profit before taxation	**354,763**	162,199
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**49,633**	17,834
Tax effect of non-deductible expenses	**20,480**	33,521
Tax effect of non-taxable income	**(40,505)**	(11,605)
Tax effect of previously unrecognised tax losses utilised	**(14)**	(228)
Tax effect of unused tax losses not recognised	**1,075**	905
Over-provision in prior years	**(3,713)**	(1,776)
Actual tax expense	**26,956**	38,651

7 DIRECTORS' EMOLUMENTS

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

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

7 DIRECTORS' EMOLUMENTS *(Continued)*

	2016				
	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:					
Kenneth Ting Woo-shou	100	2,040	–	204	2,344
Nancy Ting Wang Wan-sun	78	–	–	–	78
Non-executive directors:					
Ivan Ting Tien-li	70	–	–	–	70
Moses Cheng Mo-chi	70	–	–	–	70
Bernie Ting Wai-cheung	80	–	–	–	80
Liu Chee-ming (Retired on 2 June 2016)	29	–	–	–	29
Independent non-executive directors:					
Floyd Chan Tsoi-yin	120	–	–	–	120
Andrew Yao Cho-fai	120	–	–	–	120
Desmond Chum Kwan-yue	120	–	–	–	120
Ronald Montalto	90	–	–	–	90
	877	2,040	–	204	3,121

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: one) are directors whose emoluments are set out in note 7. The aggregate of the emoluments in respect of the other three (2016: four) individuals are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries and other emoluments	**6,096**	7,456
Retirement scheme contributions	**156**	36
	6,252	7,492

The emoluments of the three (2016: four) individuals with the highest emoluments are within the following bands:

	2017	2016
	HK$'000	*HK$'000*
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**1**	1

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$321,748,000 (2016: HK$122,905,000) and the weighted average of 950,588,000 ordinary shares (2016: 950,588,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The Company did not have dilutive potential ordinary shares outstanding during both 2017 and 2016. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both 2017 and 2016.

10 SEGMENT REPORTING

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

Toys and model trains:	The manufacture and sale of plastic, electronic and stuffed toys and model trains. These products are manufactured in the Group's manufacturing facilities located in Mainland China.
Property investment:	The leasing of office premises and industrial building to generate rental income and to gain from the appreciation in the properties' value in the long term.
Investment holding:	The investment in securities.

(a) Segment results, assets and liabilities

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

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

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

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

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

Notes to the Financial Statements *(Continued)*

10 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

	Toys and model trains		Property investment		Investment holding		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**771,048**	702,680	**52,403**	50,865	**–**	–	**823,451**	753,545
Inter-segment revenue	**–**	–	**1,195**	1,195	**–**	–	**1,195**	1,195
Reportable segment revenue	**771,048**	702,680	**53,598**	52,060	**–**	–	**824,646**	754,740
Reportable segment profit/(loss) (adjusted EBITDA)	**128,781**	87,484	**44,951**	43,978	**(4,746)**	(3,104)	**168,986**	128,358
Interest income	**519**	73	**–**	–	**1,515**	1,232	**2,034**	1,305
Interest expenses	**(7,152)**	(9,557)	**–**	–	**–**	–	**(7,152)**	(9,557)
Depreciation and amortisation for the year	**(29,175)**	(33,048)	**(6)**	(9)	**(34)**	(58)	**(29,215)**	(33,115)
Impairment of property, plant and equipment	**(3,084)**	(356)	**(49)**	(72)	**–**	–	**(3,133)**	(428)
Reportable segment assets	**557,332**	546,229	**1,803,411**	1,616,773	**295,272**	309,179	**2,656,015**	2,472,181
Additions to non-current segment assets during the year	**36,906**	23,476	**–**	–	**–**	–	**36,906**	23,476
Reportable segment liabilities	**655,577**	737,202	**25,063**	23,563	**6,365**	4,337	**687,005**	765,102

10 SEGMENT REPORTING *(Continued)*

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

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**824,646**	754,740
Elimination of inter-segment revenue	**(1,195)**	(1,195)
Consolidated revenue *(note 3)*	**823,451**	753,545
Profit		
Reportable segment profit	**168,986**	128,358
Elimination of inter-segment profit	**–**	–
Reportable segment profit derived from the Group's external customers	**168,986**	128,358
Other income	**26,078**	7,751
Depreciation and amortisation	**(29,215)**	(33,115)
Finance costs	**(7,152)**	(9,557)
Share of profits less losses of associates	**10,323**	12,376
Impairment loss of loans to an associate	**–**	(711)
Surplus on revaluation of investment properties	**186,372**	57,724
Unallocated head office and corporate expenses	**(629)**	(627)
Consolidated profit before taxation	**354,763**	162,199
Assets		
Reportable segment assets	**2,656,015**	2,472,181
Elimination of inter-segment receivables	**(265,180)**	(288,652)
	2,390,835	2,183,529
Intangible assets	**1,041**	1,679
Interest in associates	**64,052**	53,845
Loans to an associate	**25,874**	22,556
Non-current financial assets	**28,828**	8,608
Current tax recoverable	**62**	–
Deferred tax assets	**11,633**	9,985
Cash and cash equivalents	**91,591**	62,157
Unallocated head office and corporate assets	**–**	1
Consolidated total assets	**2,613,916**	2,342,360

10 SEGMENT REPORTING *(Continued)*

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

	2017 HK$'000	2016 HK$'000
Liabilities		
Reportable segment liabilities	**687,005**	765,102
Elimination of inter-segment payables	**(265,180)**	(288,652)
	421,825	476,450
Current tax payable	**41,724**	41,792
Deferred tax liabilities	**19,905**	21,770
Unallocated head office and corporate liabilities	**159**	115
Consolidated total liabilities	**483,613**	540,127

(c) Geographic information

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

	Revenue from external customers		Specified non-current assets	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Hong Kong (place of domicile)	**60,139**	57,476	**1,863,574**	1,664,578
Mainland China	**3,783**	8,022	**17,849**	30,377
North America	**587,526**	525,958	**97,416**	85,353
Europe	**171,884**	159,059	**28,642**	22,248
Others	**119**	3,030	**–**	–
	763,312	696,069	**143,907**	137,978
	823,451	753,545	**2,007,481**	1,802,556

11 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings held for own use carried at cost		Other items of plant and equipment		Investment properties	
	In Hong Kong	Outside Hong Kong		Sub-total	In Hong Kong	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:						
At 1 January 2016	71,146	37,287	761,714	870,147	1,558,749	2,428,896
Exchange adjustments	–	(3,409)	(12,247)	(15,656)	–	(15,656)
Additions	–	1,567	20,086	21,653	–	21,653
Disposals	–	–	(18,113)	(18,113)	–	(18,113)
Surplus on revaluation	–	–	–	–	57,724	57,724
At 31 December 2016	71,146	35,445	751,440	858,031	1,616,473	2,474,504
Representing						
Cost	71,146	35,445	751,440	858,031	–	858,031
Valuation – 2016	–	–	–	–	1,616,473	1,616,473
	71,146	35,445	751,440	858,031	1,616,473	2,474,504
At 1 January 2017	**71,146**	**35,445**	**751,440**	**858,031**	**1,616,473**	**2,474,504**
Exchange adjustments	**–**	**1,589**	**8,320**	**9,909**	**–**	**9,909**
Additions	**–**	**29**	**20,726**	**20,755**	**–**	**20,755**
Disposals	**–**	**–**	**(17,007)**	**(17,007)**	**–**	**(17,007)**
Surplus on revaluation	**–**	**–**	**–**	**–**	**186,372**	**186,372**
At 31 December 2017	**71,146**	**37,063**	**763,479**	**871,688**	**1,802,845**	**2,674,533**
Representing						
Cost	**71,146**	**37,063**	**763,479**	**871,688**	**–**	**871,688**
Valuation – 2017	**–**	**–**	**–**	**–**	**1,802,845**	**1,802,845**
	71,146	**37,063**	**763,479**	**871,688**	**1,802,845**	**2,674,533**

11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Land and buildings held for own use carried at cost		Other items of plant and equipment		Investment properties	
	In Hong Kong	Outside Hong Kong		Sub-total	In Hong Kong	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation and impairment:						
At 1 January 2016	10,370	20,238	691,812	722,420	–	722,420
Exchange adjustments	–	(1,676)	(7,497)	(9,173)	–	(9,173)
Charge for the year *(note 5(c))*	1,951	710	28,979	31,640	–	31,640
Impairment loss *(note 5(c))*	–	–	428	428	–	428
Written back on disposals	–	–	(17,843)	(17,843)	–	(17,843)
At 31 December 2016	12,321	19,272	695,879	727,472	–	727,472
At 1 January 2017	**12,321**	**19,272**	**695,879**	**727,472**	**–**	**727,472**
Exchange adjustments	**–**	**795**	**5,164**	**5,959**	**–**	**5,959**
Charge for the year *(note 5(c))*	**1,951**	**709**	**25,823**	**28,483**	**–**	**28,483**
Impairment loss *(note 5(c))*	**–**	**–**	**3,133**	**3,133**	**–**	**3,133**
Written back on disposals	**–**	**–**	**(16,751)**	**(16,751)**	**–**	**(16,751)**
At 31 December 2017	**14,272**	**20,776**	**713,248**	**748,296**	**–**	**748,296**
Net book value:						
At 31 December 2017	**56,874**	**16,287**	**50,231**	**123,392**	**1,802,845**	**1,926,237**
At 31 December 2016	58,825	16,173	55,561	130,559	1,616,473	1,747,032

(a) Impairment loss of property, plant and equipment

During the year ended 31 December 2017, the Group assessed the recoverable amount of the Group's moulds and equipment and as a result, an impairment loss of HK$3,133,000 (2016: HK$428,000) was recognised to write down the carrying amount of certain moulds and equipment to their recoverable amount. The estimates of recoverable amount were based on the moulds' and equipment's value in use, determined by reference to anticipated future use.

11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Fair value measurement of investment properties

	2017	2016
	HK$'000	*HK$'000*
Medium term leases at valuation:		
– In Hong Kong	**1,802,845**	1,616,473

(i) Fair value hierarchy

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

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

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

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

Notes to the Financial Statements *(Continued)*

11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

(i) Fair value hierarchy (Continued)

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

	Fair value as at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Investment properties:				
– Industrial – Hong Kong	1,616,473	–	–	1,616,473

During the year ended 31 December 2017 (2016: HK$Nil), there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: HK$Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2017. The valuations were carried out by an independent firm of surveyors, Cushman & Wakefield Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable inputs	Range	Weighted average
Investment properties – Industrial – Hong Kong	Income capitalisation approach	Market rental value	HK$12.9 to 14.0/ sq. foot/month (2016: HK$11.2 to 12.2)	HK$13.3/ sq. foot/month (2016: HK$11.6)
		Capitalisation rate	3.45% (2016: 3.6%)	3.45% (2016: 3.6%)
Investment properties – Industrial – Hong Kong	Direct comparison approach	Premium (discount) on quality of the buildings	(5%) to 5% (2016: 0%)	0% (2016: 0%)

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

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

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

11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

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

	2017 ***HK$'000***	2016 *HK$'000*
Investment properties – Industrial – Hong Kong:		
At 1 January	**1,616,473**	1,558,749
Fair value adjustment	**186,372**	57,724
At 31 December	**1,802,845**	1,616,473

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

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

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

	2017 ***HK$'000***	2016 *HK$'000*
Medium-term leases in Hong Kong	**56,874**	58,825
Freehold outside Hong Kong	**16,287**	16,173
	73,161	74,998

11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(d) Assets leased out under operating leases

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

The carrying amount of the investment properties of the Group held for use in operating leases was HK$1,802,845,000 (2016: HK$1,616,473,000). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

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

	2017	2016
	HK$'000	*HK$'000*
Within 1 year	**40,133**	39,803
After 1 year but within 5 years	**9,846**	15,581
	49,979	55,384

(e) Secured assets

Investment properties and land and buildings of the Group with total carrying values of HK$1,507,445,000 (2016: HK$1,616,473,000) and HK$73,161,000 (2016: HK$74,998,000) respectively, were pledged to various banks to secure banking facilities granted to the Group (see note 21).

12 INTANGIBLE ASSETS

	Licensing rights *HK$'000*	Club memberships *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2016	4,735	868	5,603
Exchange adjustments	(991)	–	(991)
Additions	1,823	–	1,823
At 31 December 2016	5,567	868	6,435
At 1 January 2017	5,567	868	6,435
Exchange adjustments	545	–	545
At 31 December 2017	6,112	868	6,980
Accumulated amortisation:			
At 1 January 2016	3,687	368	4,055
Exchange adjustments	(774)	–	(774)
Charge for the year	1,441	34	1,475
At 31 December 2016	4,354	402	4,756
At 1 January 2017	4,354	402	4,756
Exchange adjustments	451	–	451
Charge for the year	699	33	732
At 31 December 2017	5,504	435	5,939
Net book value:			
At 31 December 2017	608	433	1,041
At 31 December 2016	1,213	466	1,679

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

13 INTEREST IN SUBSIDIARIES

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

Name of company	Place of operation	Place of incorporation/ establishment	Particulars of issued and paid up capital (all being ordinary shares except where otherwise stated)	Proportion of ownership interest held by The Company	Proportion of ownership interest held by A subsidiary	Principal activities
Bachmann Asia Limited	Hong Kong	Hong Kong	2 shares	–	100%	Agent for sale of toys
Bachmann (China) Limited	PRC	Hong Kong	10,000 shares	–	100%	Trading of toys
Bachmann Trading (Shanghai) Limited	PRC	PRC	Registered capital RMB500,000	–	100%	Trading of toys
Bachmann Europe Plc	UK	UK	2,050,000 shares of £1 each	100%	–	Trading of toys
Bachmann Industries, Inc.	United States of America ("USA")	USA	4,010,100 shares of US$1 each	–	100%	Trading of toys
Deltahill Company Limited	Hong Kong	Hong Kong	100 shares and 1,001,000 non-voting deferred shares	–	100%	Provision of management services
Dongguan Feng Da Electronics Company Limited *(Note 1)*	PRC	PRC	Registered capital HK$8,000,000	–	100%	Manufacture of toys
Globe Fame Group Limited	British Virgin Islands ("BVI")	BVI	1 share of US$1	100%	–	Investment holding
Kader Industrial Company Limited	Hong Kong	Hong Kong	412,532,000 shares	100%	–	Manufacture and trading of toys, and property investment
K Cellars (Hong Kong) Limited	Hong Kong	Hong Kong	1,000 shares	–	100%	Sub-letting of wine cellar

Notes to the Financial Statements *(Continued)*

13 INTEREST IN SUBSIDIARIES *(Continued)*

Name of company	Place of operation	Place of incorporation/ establishment	Particulars of issued and paid up capital (all being ordinary shares except where otherwise stated)	Proportion of ownership interest held by The Company	Proportion of ownership interest held by A subsidiary	Principal activities
Dongguan Hop Pong Precise Moulds Company Limited *(Note 2)*	PRC	PRC	Registered capital RMB4,800,000	–	52%	Manufacture and sale of moulds
Sanda Kan (Cayman III) Holdings Company Limited	Cayman Islands	Cayman Islands	1,000,000 shares of US$0.01 each	100%	–	Investment holding
Sanda Kan (Mauritius) Holdings Company Limited	The Republic of Mauritius	The Republic of Mauritius	100 shares of US$0.01 each	–	100%	Investment holding
Technic International Development Limited	Hong Kong	Hong Kong	1 share	–	100%	Investment holding

Notes:

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

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

14 INTEREST IN ASSOCIATES AND LOANS TO AN ASSOCIATE

	2017 *HK$'000*	2016 *HK$'000*
Non-current assets		
Share of net assets	**23,515**	14,069
Amounts due from associates	**40,537**	39,776
	64,052	53,845
Current assets		
Loans to an associate	**27,033**	23,715
Less: impairment loss	**(1,159)**	(1,159)
	25,874	22,556

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

Amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The Group does not intend to seek repayment thereof within 12 months of the end of the reporting period.

At 31 December 2017, loans to an associate amounting to HK$20,397,000 (2016: HK$12,090,000) are unsecured, interest-bearing at 5% to 10% per annum and are repayable within one year. Interest receivable amounted to HK$6,636,000 (2016: HK$5,385,000) as at 31 December 2017. At 31 December 2016, loans to an associate of HK$6,240,000 were unsecured, interest-free and repayable on demand.

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

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

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

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

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

Summary financial information on associates

	Assets	Liabilities	Equity	Revenue	Profit
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2017					
Group's effective interest	**305,211**	**(208,809)**	**96,402**	**172,798**	**10,323**
2016					
Group's effective interest	274,176	(189,899)	84,277	164,982	12,376

15 DEPOSITS AND PREPAYMENTS

At 31 December 2017, deposits and prepayments for property, plant and equipment are expected to be recognised as property, plant and equipment in the future and classified as non-current assets.

16 NON-CURRENT FINANCIAL ASSETS

	2017	2016
	HK$'000	*HK$'000*
Available-for-sale equity securities:		
– Listed in Hong Kong	**9,631**	2,560
– Listed outside Hong Kong	**6,655**	1,412
– Unlisted outside Hong Kong	**9,446**	3,807
	25,732	7,779
Available-for-sale debt securities:		
– Listed in Hong Kong	**812**	829
– Listed outside Hong Kong	**2,284**	–
	3,096	829
	28,828	8,608

17 INVENTORIES

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

	2017	2016
	HK$'000	*HK$'000*
Raw materials	**24,400**	23,848
Work in progress	**20,866**	28,276
Finished goods	**229,429**	240,902
	274,695	293,026

At 31 December 2016, finished goods amounting to HK$104,057,000 were pledged to bank to secure banking facilities granted to the Group (see note 21).

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

	2017	2016
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**475,359**	446,652
Write down of inventories	**9,031**	7,936
Reversal of write-down of inventories	**–**	(4,533)
	484,390	450,055

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

18 TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade debtors	**149,456**	124,479
Less: allowance for doubtful debts *(note 18(b))*	**(6,434)**	(8,886)
	143,022	115,593
Amount due from an associate	**–**	1,399
Amounts due from related companies	**2,103**	1,515
Deposits and prepayments	**28,627**	24,965
	173,752	143,472

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

At 31 December 2016, amount due from an associate was trade-related, unsecured, interest-free and due within 60 days from the date of billing.

Amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment. The related companies have a common director and shareholder with the Company.

(a) Ageing analysis

As at the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 1 month	**95,557**	78,302
1 to 3 months	**42,360**	32,439
3 to 12 months	**4,097**	3,240
Over 12 months	**1,008**	1,612
	143,022	115,593

Trade debtors are due within 90 days from the date of billing. Further details on the Group's credit policy are set out in note 27(a).

18 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 1(l)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**8,886**	6,987
Exchange adjustments	**(7)**	(12)
Impairment losses *(note 5(c))*	**1,659**	1,969
Reversal of impairment losses	**–**	(58)
Uncollectible amounts written off	**(4,104)**	–
At 31 December	**6,434**	8,886

At 31 December 2017, certain of the Group's trade debtors totalling HK$7,599,000 (2016: HK$8,886,000) were individually determined to be impaired. The individually impaired receivables related to customers with which the Group no longer conducts business and management assessed that these receivables are not recoverable. Consequently, specific allowances for doubtful debts of HK$6,434,000 (2016: HK$8,886,000) were recognised. The Group does not hold any collateral over these balances.

18 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade debtors that are not impaired

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

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**116,381**	104,732
Less than 1 month past due	**14,454**	5,343
1 to 3 months past due	**10,261**	2,478
More than 3 months but less than 12 months past due	**761**	1,428
More than 12 months past due	**–**	1,612
	25,476	10,861
	141,857	115,593

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

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

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2017	2016
	HK$'000	*HK$'000*
Deposits with banks and other financial institutions	**1,132**	–
Cash at bank and on hand	**90,459**	62,157
Cash and cash equivalents in the consolidated cash flow statements	**91,591**	62,157

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

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

	Note	2017 HK$'000	2016 HK$'000
Profit before taxation		**354,763**	162,199
Adjustments for:			
Surplus on revaluation of investment properties	11	**(186,372)**	(57,724)
Depreciation	11	**28,483**	31,640
Amortisation of intangible assets	12	**732**	1,475
Impairment of property, plant and equipment	11	**3,133**	428
Finance costs	5(a)	**7,152**	9,557
Interest income	4	**(2,034)**	(1,305)
Share of profits less losses of associates	14	**(10,323)**	(12,376)
Impairment loss of loans to an associate	5(c)	**–**	711
Net (gain)/loss on disposal of property, plant and equipment	4	**(1,078)**	211
Reclassification from equity on disposal of available-for-sale securities	4	**(349)**	–
Foreign exchange loss/(gain)		**5,791**	(12,699)
Changes in working capital:			
Decrease in inventories		**18,331**	26,774
Increase in trade and other receivables		**(30,280)**	(27,173)
Decrease in trade and other payables (excluding rental deposits)		**(6,746)**	(2,618)
(Decrease)/increase in deferred rental expenses		**(78)**	217
(Decrease)/increase in rental deposits received		**(856)**	6
Decrease in accrued employee benefits		**(229)**	(51)
Cash generated from operations		**180,040**	119,272

Notes to the Financial Statements *(Continued)*

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities:

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

	Bank loans *HK$'000* *(Note 21)*
As at 1 January 2017	329,585
Changes from financing cash flows:	
Proceeds from new bank loans	212,524
Repayment of bank loans	(259,196)
Interest paid	(7,152)
Total changes from financing cash flows	(53,824)
Other change:	
Interest on bank loans and other borrowings *(note 5(a))*	7,152
As at 31 December 2017	282,913

20 TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	HK$'000
Creditors and accrued charges	124,067	131,053
Rental deposits	4,613	8,422
Amount due to a related company	929	689
	129,609	140,164

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

Amount due to a related company is unsecured, interest-free and has no fixed terms of repayment. The related company has a common director and shareholder with the Company.

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

	2017	2016
	HK$'000	HK$'000
Within 1 month	16,389	20,658
Over 1 month but within 3 months	14,963	14,896
Over 3 months but within 6 months	633	1,011
Over 6 months	979	1,467
	32,964	38,032

21 BANK LOANS

At 31 December 2017, the bank loans were repayable as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 1 year or on demand	**279,795**	329,585
After 1 year but within 2 years	**600**	–
After 2 years but within 5 years	**1,962**	–
After 5 years	**556**	–
	3,118	–
	282,913	329,585

At 31 December 2017 and 2016, all bank loans were secured.

At 31 December 2017, investment properties, leasehold land and buildings, inventories and other assets of the Group with aggregate net carrying value of HK$1,580,606,000 (2016: HK$1,862,902,000) were pledged to various banks to secure the bank loans and overdrafts granted to the Group. Details of the secured assets are as follows:

	2017	2016
	HK$'000	*HK$'000*
Investment properties *(note 11(e))*	**1,507,445**	1,616,473
Land and buildings *(note 11(e))*	**73,161**	74,998
Inventories *(note 17(a))*	**–**	104,057
Other assets	**–**	67,374
	1,580,606	1,862,902

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

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

21 BANK LOANS *(Continued)*

At 31 December 2016, an overseas subsidiary of the Group could not fulfil certain covenants imposed by a bank on a loan of HK$3,369,000, and bank loans of HK$14,605,000 were cross-defaulted. These loans were classified as current liabilities in the consolidated statement of financial position. The loan of HK$3,369,000 was fully repaid in March 2017.

Further details of the Group's management of liquidity risk are set out in note 27(b).

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2017	2016
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	**25,690**	27,975
Provisional Profits Tax paid	**(19,403)**	(17,382)
	6,287	10,593
Provision for tax outside Hong Kong	**35,375**	31,199
	41,662	41,792
Representing:		
Current tax recoverable	**62**	–
Current tax payable	**(41,724)**	(41,792)
	(41,662)	(41,792)

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

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

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised:

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

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

	Depreciation allowances in excess of the related depreciation *HK$'000*	Revaluation of land and buildings *HK$'000*	Provisions and allowances *HK$'000*	Total *HK$'000*
Deferred tax arising from:				
At 1 January 2016	12,568	10,587	(8,836)	14,319
Credited to profit or loss *(note 6(a))*	(1,385)	–	(1,149)	(2,534)
At 31 December 2016	11,183	10,587	(9,985)	11,785
At 1 January 2017	11,183	10,587	(9,985)	11,785
Credited to profit or loss *(note 6(a))*	(1,865)	–	(1,648)	(3,513)
At 31 December 2017	9,318	10,587	(11,633)	8,272

(ii) Reconciliation to the consolidated statement of financial position

	2017 ***HK$'000***	2016 *HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**11,633**	9,985
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(19,905)**	(21,770)
	(8,272)	(11,785)

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$342,892,000 (2016: HK$385,931,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses of the Group amounting to HK$36,136,000 (2016: HK$32,881,000) does not expire under current tax legislation, while the remaining tax losses amounting to HK$306,756,000 (2016: HK$353,050,000) will expire at various dates up to and including 2037 as follows:

	2017	2016
	HK$'000	*HK$'000*
Expiring in year:		
2017	**–**	111,035
2018	**48,736**	48,777
2019	**7,138**	164
2020	**29,720**	178
2021	**35,416**	189
2022	**630**	–
2028	**17,040**	34,109
2029	**31,233**	31,233
2030	**29,250**	29,250
2031	**31,900**	31,900
2032	**16,265**	16,265
2033	**642**	642
2034	**397**	397
2035	**19,830**	19,830
2036	**29,081**	29,081
2037	**9,478**	–
	306,756	353,050
No expiry date	**36,136**	32,881
	342,892	385,931

23 DEFERRED RENTAL EXPENSES

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

24 RENTAL DEPOSITS

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

25 ACCRUED EMPLOYEE BENEFITS

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**251**	302
Additional provision made	**–**	28
Provision utilised	**(229)**	(79)
	22	251

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

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Note	**Share capital** *HK$'000*	**Share premium** *HK$'000*	**Capital reserve** *HK$'000*	**Contributed surplus** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
Balance at 1 January 2016		95,059	185,138	9,347	175,594	421,235	886,373
Changes in equity for 2016:							
Profit and total comprehensive income for the year		–	–	–	–	4,090	4,090
Dividend approved in respect of the previous year	*26(b)(ii)*	–	–	–	–	(14,259)	(14,259)
Balance at 31 December 2016 and 1 January 2017		**95,059**	**185,138**	**9,347**	**175,594**	**411,066**	**876,204**
Changes in equity for 2017:							
Loss and total comprehensive income for the year		**–**	**–**	**–**	**–**	**(1,247)**	**(1,247)**
Dividend approved in respect of the previous year	*26(b)(ii)*	**–**	**–**	**–**	**–**	**(14,259)**	**(14,259)**
Balance at 31 December 2017		**95,059**	**185,138**	**9,347**	**175,594**	**395,560**	**860,698**

Notes to the Financial Statements *(Continued)*

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2017 *HK$'000*	2016 *HK$'000*
Final dividend proposed after the end of the reporting period of HK2.0 cents per ordinary share (2016: HK1.5 cents per ordinary share)	**19,012**	14,259

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

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

	2017 *HK$'000*	2016 *HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.5 cents per share (2016: HK1.5 cents per share)	**14,259**	14,259

(c) Issued share capital

	2017 Number of shares *'000*	*HK$'000*	2016 Number of shares *'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Ordinary shares, issued and fully paid:				
At the beginning and the end of the year	**950,588**	**95,059**	950,588	95,059

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

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

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

(iii) Contributed surplus

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

(iv) Exchange reserve

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

(v) Revaluation reserve

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

(vi) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies set out in notes 1(f) and 1(k)(i).

Notes to the Financial Statements *(Continued)*

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$571,154,000 (2016: HK$586,660,000).

(f) Capital management

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

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

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

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

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Capital management *(Continued)*

The Group's adjusted net debt-to-capital ratios at 31 December 2017 and 2016 were as follows:

	2017	2016
	HK$'000	*HK$'000*
Current liabilities:		
Trade and other payables	**129,609**	140,164
Bank loans	**279,795**	329,585
	409,404	469,749
Non-current liabilities:		
Bank loans	**3,118**	–
Rental deposits	**5,673**	2,720
	8,791	2,720
Total debt	**418,195**	472,469
Add: proposed dividends	**19,012**	14,259
Less: cash and cash equivalents	**(91,591)**	(62,157)
Adjusted net debt	**345,616**	424,571
Total equity	**2,130,303**	1,802,233
Less: proposed dividends	**(19,012)**	(14,259)
Adjusted capital	**2,111,291**	1,787,974
Adjusted net debt-to-capital ratio	**16.4%**	23.7%

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, investments in securities and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentration of credit risk primarily arises when the Group has significant exposure to individual customers. At the end of the reporting period, 37.48% (2016: 34.54%) and 50.54% (2016: 49.99%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

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

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

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

	2017 Total contractual undiscounted cash outflow							2016 Total contractual undiscounted cash outflow						
	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years	Total	Carrying amount	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years	Total	Carrying amount
Creditors and accrued charges	–	124,067	–	–	–	124,067	124,067	–	131,053	–	–	–	131,053	131,053
Amount due to a related company	–	929	–	–	–	929	929	–	689	–	–	–	689	689
Rental deposits	–	4,613	5,673	–	–	10,286	10,286	–	8,422	2,720	–	–	11,142	11,142
Bank loans	–	252,538	33,963	2,998	564	290,063	282,913	–	273,032	30,477	27,616	9,913	341,038	329,585
	–	382,147	39,636	2,998	564	425,345	418,195	–	413,196	33,197	27,616	9,913	483,922	472,469
Adjustments to present cash flows on bank loans based on lender's right to demand repayment	279,221	(251,815)	(33,240)	(835)	–	(6,669)		329,585	(273,032)	(30,477)	(27,616)	(9,913)	(11,453)	
	279,221	130,332	6,396	2,163	564	418,676		329,585	140,164	2,720	–	–	472,469	

As shown in the above analysis, bank loans of the Group amounting to HK$252,538,000 are due to be repaid during 2018. The short-term liquidity risk inherent in this contractual maturity date was addressed at the time the loans were drawn. The Group will in due course commence refinancing of its bank loans which are due for maturity in December 2018. Based on the Group's past ability to financing and good relationship with a number of financial institutions, the Group expects to have adequate source of funding to finance and manage its liquidity position.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk

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

(i) Interest rate profile

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

	Note	**2017 Effective interest rate**	**Amount**	2016 Effective interest rate	Amount
			HK$'000		*HK$'000*
Variable rate borrowings:					
Bank loans	*21*	**2.49%**	**282,913**	2.38%	329,585

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately HK$2,357,000 (2016: HK$2,728,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for 2016.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk

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

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

(i) Exposure to currency risk

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

	2017		
	USD *'000*	**RMB** *'000*	**GBP** *'000*
Trade and other receivables	**296**	**833**	**–**
Cash and cash equivalents	**333**	**603**	**678**
Trade and other payables	**(92)**	**(1,316)**	**–**
Net exposure arising from recognised assets and liabilities	**537**	**120**	**678**
HK$ equivalent	**4,185**	**143**	**7,077**

	2016		
	USD *'000*	RMB *'000*	GBP *'000*
Trade and other receivables	326	459	–
Cash and cash equivalents	474	587	1,382
Trade and other payables	(40)	(1,523)	–
Bank loans	–	–	(3,950)
Net exposure arising from recognised assets and liabilities	760	(477)	(2,568)
HK$ equivalent	5,928	(533)	(24,396)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

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

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after taxation and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after taxation and retained profits *HK$'000*
RMB	**5%**	**6**	5%	(22)
	(5%)	**(6)**	(5%)	22
GBP	**5%**	**295**	5%	(1,019)
	(5%)	**(295)**	(5%)	1,019

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis has been performed on the same basis for 2016.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 16). Other than the unquoted securities held for strategic purposes, all of these investments are listed.

The Group's listed investments are listed both in and outside Hong Kong. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

At 31 December 2017, it is estimated that changes in the relevant stock market indices (for listed investments) with all other variables held constant, would have increased/decreased the Group's profit after taxation (and retained profits) and other components of consolidated equity as follows:

	2017		
	Increase/ (decrease) in the relevant risk variable	Effect on profit after taxation and retained profits *HK$'000*	Effect on other components of equity *HK$'000*
Stock market index in respect of listed investments:			
Hang Seng Index	36%	–	3,466
	(36%)	–	(3,466)
Morgan Stanley Capital International World Index	20%	–	1,918
	(20%)	–	(1,918)
Nikkei 225	19%	–	964
	(19%)	–	(964)
S&P Global Natural Resources Index	19%	–	303
	(19%)	–	(303)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Equity price risk *(Continued)*

	2016		
	Increase/ (decrease) in the relevant risk variable	Effect on profit after taxation and retained profits *HK$'000*	Effect on other components of equity *HK$'000*
Stock market index in respect of listed investments:			
Hang Seng Index	5%	–	24
	(5%)	–	(24)
Morgan Stanley Capital International World Index	5%	–	202
	(5%)	–	(202)
Bloomberg GCC 200 Energy Index	10%	–	145
	(10%)	–	(145)

The sensitivity analysis indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen assuming that the changes in the stock market indices had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market indices, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market indices or other relevant risk variables, and that all other variables remain constant. The analysis has been performed on the same basis for 2016.

Notes to the Financial Statements *(Continued)*

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

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

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Fair value measurement *(Continued)*

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

Fair value hierarchy (Continued)

	Fair value as at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements				
Assets:				
Listed available-for-sale securities:				
– equity	3,972	3,972	–	–
– debt	829	829	–	–
Unlisted available-for-sale securities:				
– equity	3,807	–	3,807	–

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

28 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2017 not provided for in the financial statements were as follows:

	2017	2016
	HK$'000	*HK$'000*
Contracted for	**11,233**	1,844

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings		**Others**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**7,207**	5,975	**347**	156
After 1 year but within 5 years	**1,300**	1,216	**451**	160
	8,507	7,191	**798**	316

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

29 EMPLOYEE RETIREMENT BENEFITS

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

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

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

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

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

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

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

Notes to the Financial Statements *(Continued)*

30 MATERIAL RELATED PARTY TRANSACTIONS

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

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

(b) As at 31 December 2017, the Group advanced funds totalling HK$40,537,000 (2016: HK$39,776,000) to certain associates in which certain directors of the Company have beneficial interests. Further details of the associates are given in note 14 to the financial statements.

(c) During the year ended 31 December 2016, the Group entered into certain sales agreements with an associate. The Group sold products to an associate amounted to HK$1,399,000. There was no such transactions during the year ended 31 December 2017.

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Non-current asset			
Interest in subsidiaries		**861,713**	876,319
Current assets			
Trade and other receivables		**339**	338
Current tax recoverable		**62**	–
Cash and cash equivalents		**1,242**	1,920
		1,643	2,258
Current liabilities			
Trade and other payables		**2,658**	2,340
Current tax payable		**–**	33
		2,658	2,373
Net current liabilities		**(1,015)**	(115)
NET ASSETS		**860,698**	876,204
CAPITAL AND RESERVES	*26(a)*		
Share capital		**95,059**	95,059
Reserves		**765,639**	781,145
TOTAL EQUITY		**860,698**	876,204

Notes to the Financial Statements *(Continued)*

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Valuation of investment properties

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

(b) Impairment of property, plant and equipment

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

(c) Write down of inventories

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

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendment, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement.* HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model is unlikely to have a significant impact on the Group's financial results.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 16, *Leases*

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

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 28(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$8,507,000 and HK$798,000 for land and buildings and other assets respectively. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

Group Properties

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

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

Five-Year Summary

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**823,451**	753,545	893,447	825,229	927,773
Profit/(loss) from operations	**165,220**	102,367	115,443	4,284	(60,981)
Finance costs	**(7,152)**	(9,557)	(14,444)	(17,106)	(15,434)
Share of profits less losses of associates	**10,323**	12,376	4,205	3,716	3,263
(Impairment loss)/reversal of impairment loss of loans to an associate	**–**	(711)	1,566	1,883	–
Surplus on revaluation of investment properties	**186,372**	57,724	48,885	156,860	129,058
Profit before taxation	**354,763**	162,199	155,655	149,637	55,906
Income tax expense	**(26,956)**	(38,651)	(29,132)	(2,027)	(1,073)
Profit for the year	**327,807**	123,548	126,523	147,610	54,833
Attributable to:					
Equity shareholders of the Company	**321,748**	122,905	124,339	145,840	50,930
Non-controlling interests	**6,059**	643	2,184	1,770	3,903
Profit for the year	**327,807**	123,548	126,523	147,610	54,833
Earnings per share					
Basic	**33.85¢**	12.93¢	13.08¢	15.69¢	7.44¢
Diluted	**33.85¢**	12.93¢	13.08¢	15.69¢	7.44¢

Five-Year Summary *(Continued)*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Property, plant and equipment	**1,926,237**	1,747,032	1,706,476	1,720,370	1,582,653
Intangible assets	**1,041**	1,679	1,548	2,595	3,744
Interest in associates	**64,052**	53,845	40,643	25,206	20,025
Non-current financial assets	**28,828**	8,608	4,036	6,994	10,136
Deposits and prepayments	**16,151**	–	–	–	–
Deferred tax assets	**11,633**	9,985	8,836	3,669	3,948
Non-current assets	**2,047,942**	1,821,149	1,761,539	1,758,834	1,620,506
Net current assets/(liabilities)	**114,846**	9,670	28,860	(94,064)	(197,985)
Total assets less current liabilities	**2,162,788**	1,830,819	1,790,399	1,664,770	1,422,521
Non-current liabilities	**(32,485)**	(28,586)	(72,941)	(75,160)	(69,532)
NET ASSETS	**2,130,303**	1,802,233	1,717,458	1,589,610	1,352,989
CAPITAL AND RESERVES					
Share capital	**95,059**	95,059	95,059	95,059	66,541
Reserves	**2,032,307**	1,710,477	1,621,954	1,494,189	1,282,608
Total equity attributable to equity shareholders of the Company	**2,127,366**	1,805,536	1,717,013	1,589,248	1,349,149
Non-controlling interests	**2,937**	(3,303)	445	362	3,840
TOTAL EQUITY	**2,130,303**	1,802,233	1,717,458	1,589,610	1,352,989