Arts Group

2018
ANNUAL REPORT

Arts Optical International Holdings Limited
(Incorporated in Bermuda with limited liability)
Stock Code : 1120

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

NG Hoi Ying, Michael
NG Kim Ying

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

COMPANY SECRETARY

CHOI Pui Yiu

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Stephenson Harwood
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

WEBSITE

www.artsgroup.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

Group Structure

At 31st December, 2018

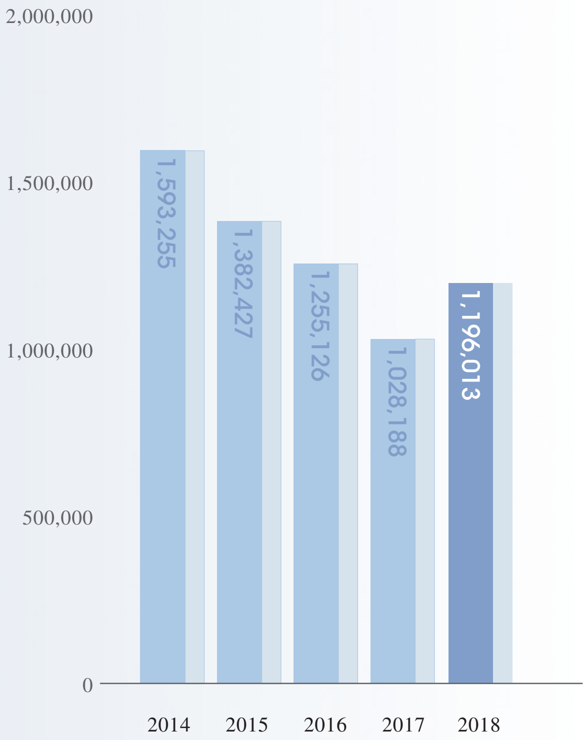
Arts Optical International Holdings Limited

Investment holding

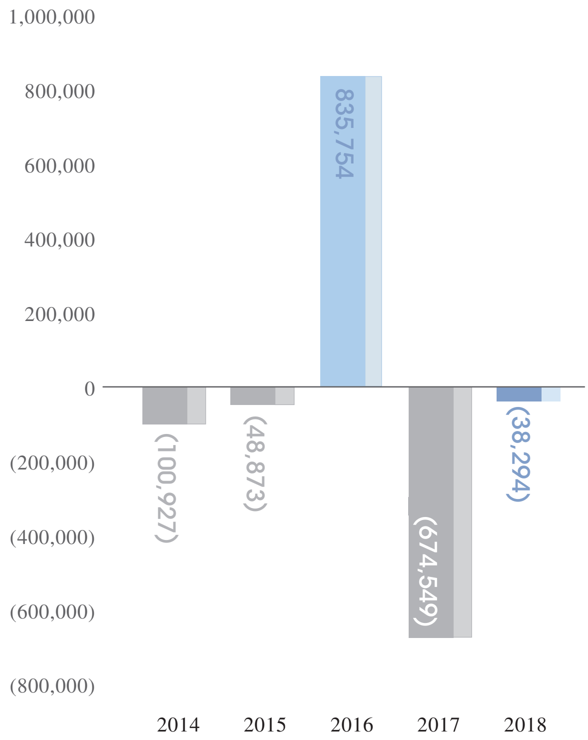
Subsidiary	Shareholding	Principal activity
Arts Optical Company Limited	100%	Trading in prescription frames and sunglasses to original design manufacturing customers
Argent Optical Manufactory Limited	100%	Manufacture of prescription frames and sunglasses
Stepper Eyewear Limited	80%	Trading in prescription frames and sunglasses under house and licensed brand names
Arts Studio Limited	100%	Trading in prescription frames and sunglasses under house and licensed brand names
Sin Dak Industrial Limited	100%	Holding of investment properties

Financial Highlights

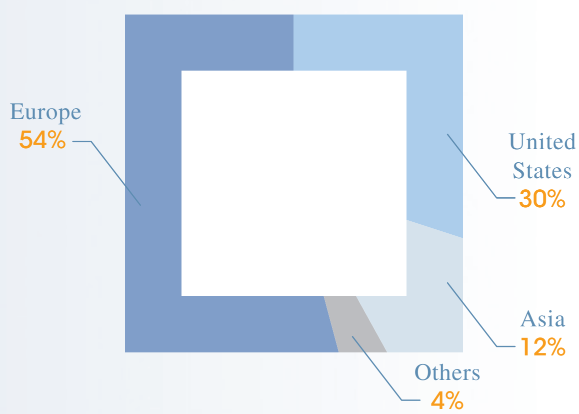
Consolidated revenue (HK$'000)



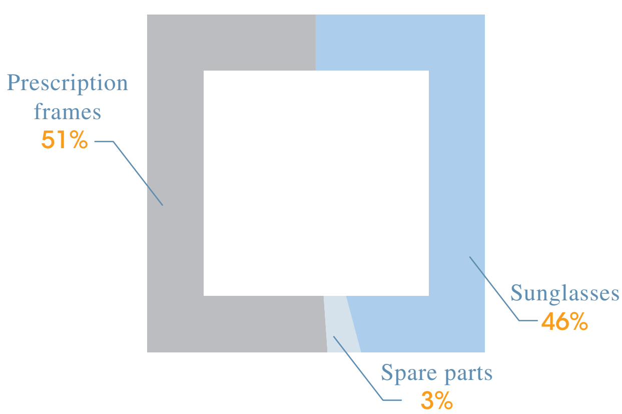
(Loss) profit attributable to owners of the Company (HK$'000)



Consolidated revenue by geographical locations in 2018



Revenue of ODM division by product range in 2018



BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue increased by 16% to HK$1,196.0 million in the financial year ended 31st December, 2018 (2017: HK$1,028.2 million). Sales orders of original design manufacturing ("ODM") division grew healthily during the year because our key customers had gradually relieved their concerns in regard to the relocation of the Shenzhen manufacturing plant in 2016. For the financial year ended 31st December, 2018, the Group recorded a loss attributable to owners of the Company and loss per share of HK$38.3 million and HK$0.10 respectively (2017: loss attributable to owners of the Company and loss per share of HK$674.5 million and HK$1.76 respectively). Significant improvement of loss for the year under review mainly attributed to recognition of impairment losses of HK$510 million in property, plant and equipment and prepaid lease payments at the year end of 2017 and there is no impairment of fixed assets was required in 2018. The depreciation charges was reduced by HK$91.5 million compared to last year because of the signification reduction of fixed assets value after the impairment losses mentioned above. Moreover, the Group also benefited from the positive impact on the profitability arising from economies of scale as the consolidated revenue increased by 16% in 2018 compared with 2017.

ODM division

Our ODM division continued to be the key revenue contributor and revenue generated by this division contributed to 78% of the consolidated revenue of the Group in 2018 (2017: 75%). Sales to ODM customers increased strongly by 20% from HK$776.1 million in 2017 to HK$931.9 million in 2018. Geographically, sales to customers in Europe, the United States (the "US"), Asia and other regions accounted for 53%, 36%, 10% and 1% respectively of the revenue of the ODM division in 2018 (2017: 53%, 37%, 10% and 0% respectively). There is no major fluctuation of sales by regions in 2018 compared with 2017. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2018. Sales of prescription frames, sunglasses and spare parts accounted for 51%, 46% and 3% respectively of revenue of the ODM division in 2018 (2017: 51%, 47% and 2% respectively).

Chairman's Statement

Distribution division

Our distribution division continued to record sales growth in 2018. Revenue generated by the distribution division increased by 5% from HK$252.1 million in 2017 to HK$264.1 million in 2018 and accounted for 22% of the consolidated revenue of the Group in 2018 (2017: 25%). The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, China and South Africa, and independent distributors in other countries. Europe was still the biggest market but its relative proportion of sales decreased due to higher growth rates recorded for sales to other geographical markets. Sales to Europe, Asia, the US and other regions accounted for 55%, 20%, 9% and 16% respectively of the revenue of the distribution division in 2018 (2017: 58%, 20%, 6% and 16% respectively). Sales to Asia, the US and other regions were up by 5%, 48% and 4% respectively. On the other hand, sales to Europe are relatively stable in term of value compared with last year. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

Financial position and liquidity

Cash flows

The Group recorded a net cash outflow from operating activities of HK$56.3 million (2017: net cash inflow of HK$46.1 million). The result in net cash outflow is mainly due to increase in inventory and debtors, deposits and prepayments by HK$24.3 million and HK$66.2 million respectively at the end of 2018 and which are in line with the strong sales growth in the year of 2018 compared with 2017. The net cash position of the Group (being the total of structure deposits, short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK$291.7 million as at 31st December, 2017 to HK$191.6 million as at 31st December, 2018.

Working capital management

In line with the increase in revenue during the period under review, total amounts of trade debtors and bills receivable balances increased by 23% from HK$275.9 million as at 31st December, 2017 to HK$339.6 million as at 31st December, 2018. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased from 98 days in 2017 to 104 days in 2018 which mainly driven by higher increase in sales from major ODM customers who generally had longer payment terms. Inventories balances also increased by 15% from HK$158.2 million as at 31st December, 2017 to HK$182.6 million as at 31st December, 2018 because more inventories were built up at year end for delivery to overseas customers prior to the Chinese New Year holidays in early February of 2019. It also leaded to inventory turnover period (being the ratio of inventory balances to cost of sales) increased from 66 days in 2017 to 71 days in 2018. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained stable at 1.7 to 1.0 as at both 31st December, 2017 and 31st December, 2018.

Gearing position

The Group maintained a low gearing position throughout 2018. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained at around 1% as at both 31st December, 2018 and 31st December, 2017. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$12.0 million as at 31st December, 2018 (31st December, 2017: HK$9.8 million).

Net asset value

The Company had 386,263,374 shares and 383,650,000 shares in issue as 31st December, 2018 and 31st December, 2017 with equity attributable to owners of the Company HK$1,045.4 million and HK$1,144.6 million as at 31st December, 2018 and 31st December, 2017 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 31st December, 2018 was HK$2.71 (31st December, 2017: HK$2.98).

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi. The Group noted that there is potential exposure to the rapid change of Renminbi yet the range of movement was relatively limited. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

PROSPECTS

Faced with the dual challenges of the US-China trade negotiation and the unresolved Brexit event, the business environment for our ODM business is expected to remain challenging and the market demand will still be volatile.

It is part of our continued effort to drive down the operating cost by shifting manufacturing and sourcing activities to lower-cost locations in Mainland China. In 2019, the Group plans to set up a new production facility and a sourcing office in Yingtan city of Jiangxi province. The Yingtan city is well known in the optical products industry in last twenties years because the city is abundant of optical suppliers and skillful workers with relatively lower cost compared to those in Guangdong province. The new setups will be started from a small scale and expanded gradually along with growth in sales demand in the future.

Going forward, the management will continue to build on our strong financial position and cautiously invest in our core businesses while adhering to our prudent financial discipline.

DIVIDENDS

The Board does not recommend the payment of a final dividend (2017: nil) for the year ended 31st December, 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company to be held on 23rd May, 2019 (the "AGM"), the register of members of the Company will be closed. Details of such closure is set out below:

Latest time to lodge transfer documents for registration	4:30 p.m. on 17th May, 2019
Closure of register of members	20th May, 2019 to 23rd May, 2019 (both dates inclusive)
Record date	23rd May, 2019

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

ANNUAL GENERAL MEETING

The notice of AGM will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in mid-April 2019.

APPRECIATION

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

Ng Hoi Ying, Michael
Chairman

Hong Kong, 28th March, 2019

Biographical Details of Directors and Management

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 64, is an executive director of the Company and the founder as well as the chairman of the Group. Mr. Ng is responsible for the corporate policy making and strategic planning of the Group. He has 51 years of experience in the optical products industry. Mr. Ng won the Young Industrialist Award of Hong Kong organised by the Federation of Hong Kong Industries in 1995. He was admitted as an Honorary Fellow of The Professional Validation Council of Hong Kong Industries in 2004. Mr. Ng was the President of the Hong Kong Optical Manufacturers Association Ltd. (the "HKOMA") during 2002 and 2006 and is currently an executive committee member of the HKOMA and a Life Honorary President of the Hong Kong Wong Tai Sin Industry And Commerce Association Limited. He is the brother of Mr. Ng Kim Ying.

NG Kim Ying, aged 63, is an executive director of the Company. Mr. Ng Kim Ying joined the Group in 1985 and is responsible for the implementation and application of information technology to the business of the Group. He has 34 years of experience in the optical products industry and is the brother of Mr. Ng.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Chi Wai, aged 52, is an independent non-executive director, the chairman of the Audit committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wong is also an independent non-executive director for Bonjour Holdings Limited, Kin Yat Holdings Limited and C&D International Investment Group Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Wong obtained a Bachelor degree in Social Sciences from and was awarded a Post-graduate Certificate in Laws by the University of Hong Kong in 1988 and 1993 respectively. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. He has 31 years of experience in the accountancy profession. Other than his qualification of private practice in accounting, he is currently an assistant solicitor in a law firm. Mr. Wong joined the Group in 2004.

CHUNG Hil Lan Eric, aged 53, is an independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Chung obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Chung has 31 years of experience in the accountancy profession and is currently the owner of Eric H. L. Chung & Co., a certified public accountants firm in Hong Kong. He joined the Group in 2004.

LAM Yu Lung, aged 54, is an independent non-executive director, the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Lam is also an independent non-executive director for Telecom Digital Holdings Limited which is listed on the Main Board of the Stock Exchange. Mr. Lam obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Lam has 31 years of experience in the accountancy profession and is currently a partner of Zhonghui Anda CPA Limited, a certified public accountants firm in Hong Kong. He joined the Group in 2011.

Biographical Details of Directors and Management

SENIOR MANAGEMENT

CHOI Pui Yiu, aged 54, is the chief financial officer and the company secretary of the Group. Mr. Choi joined the Group in 2017 and is responsible for the Group's finance, accounting and company secretarial matters. He obtained a Bachelor degree in Science from the Northeast Missouri State University of the United States of America and a Master degree in Management from the Dongbei University of Finance and Economics of the People's Republic of China in 1988 and 2005 respectively. Mr. Choi is a member of Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He has 30 years of experience in the accountancy profession and has extensive exposure to various manufacturing industries.

LI Chi Hung, aged 58, is the general manager of the Group's production plants in Shenzhen, Heyuan and Zhongshan. Mr. Li joined the Group in 1976 and assisted Mr. Ng in the establishment and expansion of the production plants mentioned above. He is also responsible for the overall management and development of these plants and has 43 years of experience in the optical products industry.

Directors' Report

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries, associate and joint venture are the manufacture of, and trading in, prescription frames and sunglasses as well as property holding, which are set out in notes 43, 21 and 22 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis using financial key performance indicators, can be found in the Chairman's Statement set out on pages 5 to 9 of this Annual Report. This discussion forms part of this Directors' Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 36 of this Annual Report.

The directors have resolved not to declare any interim dividend, but a first special dividend of 5.0 HK cents per share in cash, with an option granted to shareholders to receive new and fully paid ordinary shares in lieu of cash or partly in shares. For further details, please refer to the circular of the Company dated 3rd October, 2018 regarding scrip dividend scheme in relation to the special dividend for the six months ended 30th June, 2018. The total amount of cash dividend HK$14,166,000 was paid and total number of 2,613,374 new ordinary shares was issued to the shareholders during the year. The directors do not recommend the payment of a final dividend for the year ended 31st December, 2018.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 135 of this Annual Report.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2018 were as follows:

	2018 *HK$'000*	2017 *HK$'000*
Contributed surplus	**105,369**	105,369
Retained earnings	**4,611**	4,738
	109,980	110,107

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Ng Hoi Ying, Michael
Ng Kim Ying

Independent non-executive directors:

Wong Chi Wai
Chung Hil Lan Eric
Lam Yu Lung

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Ng Kim Ying and Mr. Ng Hoi Ying, Michael will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

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

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

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

On 2nd July, 2010, Allied Power Inc. ("Allied Power"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Share Purchase Agreement") with Mr. Ng Hoi Ying, Michael ("Mr. Ng"), a connected person of the Company, pursuant to which Mr. Ng agreed to sell and Allied Power agreed to purchase the entire issued share capital of Art Talent Industrial Limited ("Art Talent") and take an assignment of the benefit of the shareholder loans owed to Mr. Ng by Art Talent and its wholly-owned subsidiary 宏懋金屬製品（深圳）有限公司 (Hongmao Metal Products (Shenzhen) Co. Ltd.) ("Hongmao") respectively, for a total consideration of HK$55 million. Art Talent, through Hongmao, owned or had rights to the four parcels of land with a total site area of approximately 64,852.4 square metres including a piece of land with a site area of approximately 34,493.6 square metres (the "Land A") and four buildings with a total gross floor area of approximately 16,919.0 square metres (the "Buildings") that had been constructed on Land A (collectively, the "Properties").

Under the Share Purchase Agreement, Mr. Ng undertook to use all reasonable endeavours to assist Allied Power, Art Talent, and/or Hongmao to obtain, by not later than 31st December, 2012, necessary certificate(s) and permit(s) from, and complete requisite filing and/or registration procedures with the relevant government authorities in respect of the land use right certificate and the real estate title certificates to the Properties to the extent not already obtained and agreed to indemnify Allied Power in respect of all losses, damages, costs, claims, liabilities, charges and expenses which Allied Power, Art Talent, and/or Hongmao might suffer up to an amount of HK$55 million, in the event that by 31st December, 2012: (i) Hongmao had not obtained the land use right certificate in respect of Land A; and (ii) Hongmao had not obtained real estate title certificates in respect of the Buildings. Mr. Ng further agreed to indemnify Allied Power in respect of any increase in the land premium to be payable if the authorised construction area was exceeded in respect of Land A.

As the land use right certificate and the real estate title certificates had not been obtained, Allied Power entered into supplemental deeds with Mr. Ng on 20th December, 2012, 16th December, 2015 and 7th December, 2018 respectively, pursuant to which Mr. Ng agreed to extend the duration of the undertaking and indemnity to 31st December, 2015, 31st December, 2018 and 31st December, 2021 respectively.

For further details, please refer to the announcements of the Company dated 2nd July, 2010, 20th December, 2012, 16th December, 2015 and 7th December, 2018.

Mr. Ng was a connected person of the Company by virtue of his being a director and controlling shareholder of the Company. As the giving of the indemnity constituted financial assistance provided by a connected person for the benefit of the Company on normal commercial terms (or better) where no security is granted, this transaction was exempt from the independent shareholders' approval requirements and is only subject to the reporting and announcement requirements as set out under the Listing Rules.

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions carried out by the Group during the year are set out in note 41 to the consolidated financial statements. The aforesaid related party transactions did not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

PERMITTED INDEMNITY PROVISION

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

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

As at 31st December, 2018, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Shares in the Company (Long Positions)

Name of director	Number of issued ordinary shares held Personal interests	 Family interests	 Other interests	 Total	Approximate percentage of issued share capital of the Company
Ng Hoi Ying, Michael	2,856,000	5,656,000	153,600,000 *(Note)*	162,112,000	41.97%
Ng Kim Ying	23,126,347	5,000,000	—	28,126,347	7.28%

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

Save as disclosed above, as at 31st December, 2018, none of the directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st December, 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	153,600,000	*(Note a)*	39.77%
Maritime Overseas Assets Limited	Held by controlled corporation	153,600,000	*(Note a)*	39.77%
Ratagan International Company Limited	Beneficial owner	153,600,000	*(Note a)*	39.77%
FMR LLC	Held by controlled corporation	30,870,000	*(Note b)*	7.99%
Fidelity Puritan Trust	Beneficial owner	24,645,000	*(Note c)*	6.38%
David Michael Webb	Beneficial owner	6,889,000		1.78%
	Held by controlled corporation	23,877,000	*(Note d)*	6.18%
Preferable Situation Assets Limited	Beneficial owner	23,877,000	*(Note d)*	6.18%

Notes:

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of The Arts 2007 Trust. The Arts 2007 Trust was a discretionary trust, the founder of which is Mr. Ng Hoi Ying, Michael and the beneficiaries of which included Mr. Ng Hoi Ying, Michael. Under The Arts 2007 Trust, 153,600,000 shares of the Company were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBCITL.

(b) According to a corporate substantial shareholder notice filed by FMR LLC on 31st October, 2018 (with the date of the relevant event as set out in the corporate substantial shareholder notice being 31st October, 2018), FMR LLC held 30,870,000 shares of the Company indirectly through FMR Co., Inc.. FMR Co., Inc. is wholly-owned by Fidelity Management & Research Company, which is a wholly-owned subsidiary of FMR LLC. Of the above-mentioned 30,870,000 shares of the Company held by FMR Co., Inc., 3,488,000 shares of the Company were held for Fidelity Management Trust Company, which is wholly-owned by FMR LLC, while 3,700,000 shares of the Company were held for Fidelity Investments Canada ULC, which is ultimately owned by certain employees and shareholders of FMR LLC. Those employees and shareholders of FMR LLC own 100% equity interest in Fidelity Canada Investors LLC, which owns 49% equity interest in 483A Bay Street Holdings LP. 483A Bay Street Holdings LP owns 100% equity interest in BlueJay Lux 1 S.a.r.l., which owns 100% equity interest in FIC Holdings ULC, which in turn owns 100% equity interest in Fidelity Investments Canada ULC.

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

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

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed no other person as having notifiable interests or short positions in the issued share capital of the Company as at 31st December, 2018.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2018, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 41% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 14% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 28% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 8% of the Group's total purchases.

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

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or similar rights as at 31st December, 2018 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

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

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

EMOLUMENT POLICY

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

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

Details of the retirement benefit schemes for all qualifying employees of the Group are set out in note 38 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 20 to 30 of this Annual Report.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 45 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 28th March, 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices. The Company has complied with all applicable code provisions set out in the CG Code throughout the year ended 31st December, 2018, except for deviation from code provision A.2.1 of the CG Code as disclosed under the paragraph "Chairman and Chief Executive Officer" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31st December, 2018.

BOARD OF DIRECTORS

At 31st December, 2018, the Board comprises five Directors, two of whom are executive Directors, namely Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying, and three are independent non-executive Directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.

During the year ended 31st December, 2018, three Board meetings and one General meeting were held. The attendance of each Director is set out as follows:

	Attendance Record	
Directors	**Board meetings**	**General meeting**
Ng Hoi Ying, Michael *(Chairman)*	3/3	1/1
Ng Kim Ying	3/3	1/1
Wong Chi Wai	3/3	1/1
Chung Hil Lan Eric	3/3	1/1
Lam Yu Lung	3/3	1/1

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

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

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

BOARD OF DIRECTORS (continued)

The Directors participated in the following trainings during the year ended 31st December, 2018:

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Mr. Ng Kim Ying and Mr. Ng Hoi Ying, Michael were re-elected as Directors in the annual general meeting of the Company held on 25th May, 2016 and 25th May, 2017 respectively for a term of not more than 3 years and are subject to retirement by rotation in accordance with the Bye-laws. In accordance with the abovementioned Bye-laws, Mr. Ng Kim Ying and Mr. Ng Hoi Ying, Michael will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Their proposed term of office is not more than 3 years and is subject to retirement by rotation in accordance with the Bye-laws.

BOARD COMMITTEES

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

AUDIT COMMITTEE

An Audit Committee has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but are not limited to) review of the interim and annual reports of the Group as well as various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company. The Audit Committee has performed the above duties during the year ended 31st December, 2018. Three Audit Committee meetings were held during the year ended 31st December, 2018 and the attendance of each committee member is set out as follows:

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

REMUNERATION COMMITTEE

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

One Remuneration Committee meeting was held during the year ended 31st December, 2018 and the attendance of each committee member is set out as follows:

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

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

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

2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

REMUNERATION COMMITTEE (continued)

During the year ended 31st December, 2018, the Remuneration Committee has, among other things, reviewed and determined the remuneration packages of the executive Directors and senior management with reference to their performance and the overall remuneration policy of the Group and approved the terms of executive Directors' service contracts. The remuneration of independent non-executive Directors as recommended by the Board and approved by the shareholders of the Company at the annual general meeting.

As at 31st December, 2018, the Group employed approximately 5,300 (31st December, 2017: 5,300) full time staff in Mainland China, Hong Kong, Europe and South Africa. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

NOMINATION COMMITTEE

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors, and making recommendations to the Board on the appointment or re-appointment of Directors. The Nomination Committee has performed the above duties during the year ended 31st December, 2018.

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

One Nomination Committee meeting was held during the year ended 31st December, 2018 and the attendance of each committee member is set out as follows:

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

NOMINATION POLICY

Nomination Criteria

In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

1. character and integrity;

2. qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the board diversity policy adopted by the Company that are relevant to the Company's business and corporate strategy;

3. any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

4. willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company;

5. for independent non-executive Directors, whether the candidate would be considered independent with reference to the Listing Rules; and

6. such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

The Company has put in place the following nomination procedures of the Directors:

Appointment of New and Replacement Directors

1. If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, and external executive search firms.

2. Upon compilation of the list of potential candidates and interviews of the potential candidate, the relevant Nomination Committee will shortlist candidates for consideration by themselves and/or the Board based on the criteria as set out above and such other factors that it considers appropriate. If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the criteria as set out above.

3. The Board has the final authority on determining suitable director candidate for appointment.

NOMINATION POLICY (continued)

Nomination Procedures (continued)

Re-election of Directors and Nomination from Shareholders

1. Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

2. In case of independent non-executive Directors, the Nomination Committee shall ensure that the independent non-executive Directors meet the criteria of independence as laid down in the Listing Rules.

3. Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must nominate the candidate in accordance with the procedures for shareholders to propose a person for election as a Director adopted by the Company. The Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

The nomination procedures shall be in compliance with the Listing Rules, the Company's memorandum of association and Bye-laws and all applicable laws and regulations.

DIVIDEND POLICY

The Company considers stable and sustainable returns to shareholders to be our goal and endeavours to maintain a progressive dividend policy.

In deciding whether to propose a dividend and in determining the dividend amount, the Board takes into account (a) the earnings performance of the Group, (b) the financial position of the Group, (c) the investment requirements of the Group and (d) the future prospects of the Group.

There can be no assurance that a dividend will be proposed or declared in any given year. If a dividend is proposed or declared, there can be no assurance that the dividend amount will be as contemplated above.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31st December, 2018, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the financial statements, have made judgements and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis.

A statement by the auditor about its reporting responsibilities is included in the Independent Auditor's Report on pages 31 to 35 of this Annual Report.

AUDITOR'S REMUNERATION

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

Services rendered	**Fees paid/payable** *HK$'000*
Audit service	1,500
Non-audit services:	
Review on 2018 interim results	380
Tax compliance services	145
Review on 2018 preliminary annual results	13

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The annual review of the effectiveness of the risk management and internal control systems of the Group by the Board during the year ended 31st December, 2018 has considered the following:

- the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions as well as review of risk management and internal control systems;
- the changes in the nature and extent of significant risks during the year and the Group's ability to respond to changes in its business and external environment;
- the scope and quality of management's ongoing monitoring of risks and of the internal control systems;
- the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management;
- significant control failings or weaknesses, if any, that have been identified during the year and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition; and
- the effectiveness of the Group's processes in relation to financial reporting and statutory and regulatory compliance.

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

- regular interviews with executive Directors in relation to key business operations, internal control and compliance issues, both financial and non-financial;
- review of significant issues arising from internal control review reports and the external audit report;
- private sessions with external consultants and auditors; and
- review of annual assessment and certification of internal controls from executive Directors, management of overseas subsidiaries and department heads in their areas of responsibility.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

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

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

The Board reviews the risk management and internal control systems of the Group annually. With the assistance of an external consultant, Royal Assets Advisory Limited and the Audit Committee, the Board assessed the effectiveness and adequacy of the Group's risk management and internal control systems which covered the process used to identify, evaluate and management significant risks, all material controls, including financial, operational and compliance controls during the year ended 31st December, 2018. No major issue had been raised but certain areas for improvement had been identified and appropriate measures had been taken.

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

INSIDE INFORMATION

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

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

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

COMPANY SECRETARY

Mr. Choi Pui Yiu has been appointed as the Company Secretary since June 2017. There was no non-compliance with requirements of professional qualifications and professional training under the Listing Rules during the year ended 31st December, 2018.

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

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

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

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

Making An Enquiry to the Board

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

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

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

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

Putting Forward Proposals at General Meetings

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

INVESTOR RELATIONS

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the year ended 31st December, 2018. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Shareholders' Communication Policy

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

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 36 to 134, which comprise the consolidated statement of financial position as at 31st December, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of property, plant and equipment and prepaid lease payments	
We identified the estimated impairment of property, plant and equipment and prepaid lease payments as a key audit matter due to judgements and estimation are required in determining the recoverable amount for impairment assessment of an individual asset or the cash-generating unit to which the asset belongs. As disclosed in the notes 4, 17 and 18 to the consolidated financial statements, when a review for impairment is conducted, the recoverable amount is based on the value in use calculations which rely on the management's assumptions. These assumptions relate to discount rates applied and forecast sales growth and margin figures which are subject to estimation. As disclosed in the notes 17 and 18 to the consolidated financial statements, the Group held HK$522,698,000 and HK$30,188,000 of property, plant and equipment and prepaid lease payments respectively as at 31st December, 2018 (net of accumulated impairment of approximately HK$466,871,000 and HK$17,913,000, respectively).	Our procedures in relation to estimated impairment of property, plant and equipment and prepaid lease payments included: • Assessing management's process in identifying the impairment indicators of property, plant and equipment and prepaid lease payments; • Challenging and assessing the reasonableness of management's key assumptions including discount rates and forecast sales growth rate and margin adopted in future cash flows forecast by management and checking its mathematical accuracy; • Discussing with the specialist appointed by the Group and involved our specialist to review the discount rate adopted; and • Assessing the sensitivity analyses performed by the management and the extent of the impact on the value in use calculations.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to the significant judgement associated with determining the fair value. As disclosed in notes 4 and 16 to the consolidated financial statements, the investment properties are located in Hong Kong and carried at approximately HK$178 million as at 31st December, 2018. An increase in fair value of HK$20 million was recognised in profit or loss for the year ended 31st December, 2018. The Group's investment properties are held at fair value based on the valuations performed by an independent firm of qualified professional valuers (the "Valuers"). Details of the valuation technique and key inputs used in the valuations are disclosed in note 16 to the consolidated financial statements. The valuations have been arrived at using income capitalisation approach. The valuations of investment properties are dependent on certain key inputs, including reversion yield and monthly market rent and contracted monthly rent of similar properties and adjusted based on the Valuer's knowledge of the factors specific to the respective properties.	Our procedures in relation to evaluating the appropriateness of valuation of investment properties included: • Assessing the judgements adopted by the management of the Group and the Valuers by comparing these estimates to entity-specific information and market data to evaluate the reasonableness of these judgements; • Evaluating the Valuer's competence, capabilities and objectivity; • Evaluating the reasonableness of adjustments made by the Valuers by reference to the similar properties relating to location and size of properties; and • Obtaining rental agreements entered into by the Group and comparing the monthly market rent adopted in the valuation to contracted monthly rent in the rental agreements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Ka-Lai Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28th March, 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2018

	Notes	2018 *HK$'000*	2017 *HK$'000*
Revenue	5	**1,196,013**	1,028,188
Cost of sales		**(937,947)**	(870,675)
Gross profit		**258,066**	157,513
Other income	6	**29,265**	31,307
Other gains and losses	7	**38,053**	(490,466)
Impairment losses	8	**(4,563)**	(7,487)
Gain on disposal of a subsidiary	42	**—**	29,208
Distribution and selling expenses		**(37,095)**	(29,863)
Administrative expenses		**(311,301)**	(351,318)
Other expenses		**(2,245)**	(1,015)
Finance costs	9	**(1,133)**	(4,650)
Share of profit of an associate		**5,922**	9,154
Share of profit of a joint venture		**—**	78
Loss before tax		**(25,031)**	(657,539)
Income tax expense	10	**(9,555)**	(11,408)
Loss for the year	11	**(34,586)**	(668,947)
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(49,375)**	101,676
Release of exchange reserve upon disposal of a subsidiary		**—**	1,691
Item that will not be reclassified subsequently to profit or loss:			
Revaluation increase upon transfer from property, plant and equipment to investment properties		**1,916**	—
Total comprehensive expense for the year		**(82,045)**	(565,580)
(Loss) profit for the year attributable to:			
Owners of the Company		**(38,294)**	(674,549)
Non-controlling interests		**3,708**	5,602
		(34,586)	(668,947)
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(85,006)**	(571,902)
Non-controlling interests		**2,961**	6,322
		(82,045)	(565,580)
Loss per share	15		
– Basic		**HK$(0.10)**	HK$(1.76)

Consolidated Statement of Financial Position

At 31st December, 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current Assets			
Investment properties	16	**177,610**	154,190
Property, plant and equipment	17	**522,698**	620,327
Prepaid lease payments	18	**29,386**	31,998
Deposits paid for acquisition of property, plant and equipment		**1,315**	1,409
Intangible assets	19	**9,396**	11,203
Goodwill	20	**7,760**	8,260
Interest in an associate	21	**32,306**	33,304
Interest in a joint venture	22	**—**	—
Loan receivable	23	**—**	—
Other receivables	24	**—**	787
Deferred tax assets	34	**391**	206
		780,862	861,684
Current Assets			
Inventories	25	**182,563**	158,224
Debtors, deposits and prepayments	26	**355,359**	289,178
Loan receivable	23	**—**	—
Other receivables	24	**881**	1,007
Prepaid lease payments	18	**802**	849
Tax recoverable		**—**	112
Structured deposits	27	**—**	114,911
Short-term bank deposits	28	**—**	22,982
Bank balances and cash	28	**222,277**	210,464
		761,882	797,727
Current Liabilities			
Creditors and accrued charges	29	**399,115**	416,264
Contract liabilities	30	**13,363**	—
Refund liabilities	31	**4,865**	—
Bank borrowings	32	**30,641**	56,687
Tax liabilities		**9,456**	9,846
		457,440	482,797
Net Current Assets		**304,442**	314,930
Total Assets less Current Liabilities		**1,085,304**	1,176,614

Consolidated Statement of Financial Position

At 31st December, 2018

	Notes	2018 HK$'000	2017 HK$'000
Capital and Reserves			
Share capital	33	**38,626**	38,365
Reserves		**1,006,789**	1,106,222
Equity attributable to owners of the Company		**1,045,415**	1,144,587
Non-controlling interests		**27,867**	22,232
Total Equity		**1,073,282**	1,166,819
Non-current Liabilities			
Deferred tax liabilities	34	**12,022**	9,795
		1,085,304	1,176,614

The consolidated financial statements on pages 36 to 134 were approved and authorised for issue by the Board of Directors on 28th March, 2019 and are signed on its behalf by:

Ng Hoi Ying, Michael
DIRECTOR

Ng Kim Ying
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2018

	Attributable to owners of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000* *(Note a)*	Other reserve *HK$'000* *(Note b)*	Exchange reserve *HK$'000*	Property revaluation reserve *HK$'000*	Retained profits *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1st January, 2017	38,365	113,950	(3,269)	5,318	(4,965)	37,261	1,633,415	1,820,075	16,517	1,836,592
(Loss) profit for the year	—	—	—	—	—	—	(674,549)	(674,549)	5,602	(668,947)
Exchange differences arising on translation of foreign operations	—	—	—	—	96,952	—	—	96,952	720	97,672
Exchange differences arising on translation of an associate	—	—	—	—	3,797	—	—	3,797	—	3,797
Exchange differences arising on translation of a joint venture	—	—	—	—	207	—	—	207	—	207
Release of exchange reserve upon disposal of a subsidiary *(note 42)*	—	—	—	—	1,691	—	—	1,691	—	1,691
Total comprehensive income (expense) for the year	—	—	—	—	102,647	—	(674,549)	(571,902)	6,322	(565,580)
Dividends paid *(note 14)*	—	—	—	—	—	—	(103,586)	(103,586)	—	(103,586)
Dividend paid to non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	(607)	(607)
At 31st December, 2017	38,365	113,950	(3,269)	5,318	97,682	37,261	855,280	1,144,587	22,232	1,166,819
(Loss) profit for the year	—	—	—	—	—	—	(38,294)	(38,294)	3,708	(34,586)
Exchange differences arising on translation of foreign operations	—	—	—	—	(46,876)	—	—	(46,876)	(747)	(47,623)
Exchange differences arising on translation of an associate	—	—	—	—	(1,752)	—	—	(1,752)	—	(1,752)
Revaluation increase upon transfer from property, plant and equipment to investment properties *(note 17)*	—	—	—	—	—	1,916	—	1,916	—	1,916
Total comprehensive (expense) income for the year	—	—	—	—	(48,628)	1,916	(38,294)	(85,006)	2,961	(82,045)
Dividends paid *(note 14)*	—	—	—	—	—	—	(19,183)	(19,183)	—	(19,183)
Dividend paid to non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	(571)	(571)
Issue of shares *(note 33)*	261	4,756	—	—	—	—	—	5,017	—	5,017
Contribution from non-controlling shareholder in respect of incorporation of a subsidiary	—	—	—	—	—	—	—	—	3,245	3,245
At 31st December, 2018	38,626	118,706	(3,269)	5,318	49,054	39,177	797,803	1,045,415	27,867	1,073,282

Notes:

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

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

Consolidated Statement of Cash Flows

For the year ended 31st December, 2018

	Notes	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Loss before tax		(25,031)	(657,539)
Adjustments for:			
Finance costs		1,133	4,650
Release of prepaid lease payments		835	1,359
Depreciation of property, plant and equipment		98,707	190,247
Amortisation of intangible assets		2,005	1,930
Allowance for inventories		6,465	2,599
Impairment loss of debtors		4,563	7,487
Impairment loss of property, plant and equipment	17	—	491,155
Impairment loss of prepaid lease payments	18	—	18,845
Impairment loss of trademark	19	—	1,700
Impairment loss of investment in a joint venture	22	—	285
Interest income		(5,431)	(12,344)
Net gain on disposal of property, plant and equipment		(770)	(136)
Increase in fair values of investment properties		(20,250)	(12,710)
Decrease in fair values of derivative financial instruments		—	131
Gain on disposal of a subsidiary		—	(29,208)
Imputed interest income on other receivables		(137)	(214)
Share of profit of an associate		(5,922)	(9,154)
Share of profit of a joint venture		—	(78)
Operating cash flows before movements in working capital		56,167	(995)
(Increase) decrease in inventories		(39,799)	11,707
(Increase) decrease in debtors, deposits and prepayments		(77,025)	62,390
Increase (decrease) in creditors and accrued charges		6,526	(24,447)
Increase in contract liabilities		5,069	—
Increase in refund liabilities		562	—
Cash (used in) generated from operations		(48,500)	48,655
Income taxes paid		(7,791)	(2,587)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(56,291)	46,068

Consolidated Statement of Cash Flows

For the year ended 31st December, 2018

	Notes	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(29,921)	(141,163)
Contribution from non-controlling shareholder in respect of incorporation of a subsidiary		3,245	—
Net proceed from disposal of a subsidiary	42	—	51,717
Proceeds from disposal of property, plant and equipment		893	261
Interest received		5,431	12,344
Investment in structured deposits		—	(113,430)
Release of structured deposits		114,911	—
Dividend received from an associate		4,525	4,225
Deposits paid for acquisition of property, plant and equipment		(647)	(1,099)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		98,437	(187,145)
FINANCING ACTIVITIES			
Proceeds from disposal of partial interests in subsidiaries without losing control		953	1,007
Cash dividends paid to owners of the Company	14	(14,166)	(103,586)
Cash dividend paid to non-controlling shareholders of a subsidiary		(571)	(607)
Interest paid		(1,133)	(4,650)
New bank borrowings raised		—	44,550
Repayments of bank borrowings		(26,046)	(206,720)
NET CASH USED IN FINANCING ACTIVITIES		(40,963)	(270,006)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,183	(411,083)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		233,446	629,089
Effect of foreign exchange rate changes		(12,352)	15,440
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by		222,277	233,446
Short-term bank deposits		—	22,982
Bank balances and cash		222,277	210,464
		222,277	233,446

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2018

1. GENERAL

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

The Company is an investment holding company. The principal activities of the Company and its principal subsidiaries (the "Group") are set out in note 43.

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

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

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1st January, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18, HKAS 11 and the related interpretations.

The Group recognises revenue from the sales of optical products which arise from contracts with customers. Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1st January, 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31st December, 2017 *HK$'000*	Reclassification *HK$'000*	Carrying amounts under HKFRS 15 at 1st January, 2018 *HK$'000*
Current liabilities				
Creditors and accrued charges	(a)	12,597	(12,597)	—
Contract liabilities	(a)	—	8,294	8,294
Refund liabilities	(a)	—	4,303	4,303

Note:

(a) As at 1st January, 2018, receipt in advance from customers and provision for sales return previously included in creditors and accrued charges were reclassified to contract liabilities and refund liabilities respectively.

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

HKFRS 15 Revenue from Contracts with Customers (continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31st December, 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Current liabilities				
Creditors and accrued charges	(a)	—	18,228	18,228
Contract liabilities	(a)	13,363	(13,363)	—
Refund liabilities	(a)	4,865	(4,865)	—

Note:

(a) As at 31st December, 2018, receipt in advance from customers and provision for sales return included in creditors and accrued charges were classified as contract liabilities and refund liabilities respectively.

Impact on the consolidated statement of cash flows

	Note	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Operating activities				
Increase in creditors and accrued charges	(a)	6,526	5,631	12,157
Increase in contract liabilities	(a)	5,069	(5,069)	—
Increase in refund liabilities	(a)	562	(562)	—
Cash used in operations		(48,500)	—	(48,500)
Net cash used in operating activities		(56,291)	—	(56,291)

Note:

(a) As at 31st December, 2018, receipt in advance from customers and provision for sales return included in creditors and accrued charges were classified as contract liabilities and refund liabilities respectively.

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

HKFRS 9 Financial Instruments and the related Amendments

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement.*

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

Classification and measurement:

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

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

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade debtors. Except for those which had been determined as credit-impaired under HKAS 39, trade debtor with significant outstanding balance has been assessed individually, the remaining balances are grouped based on internal credit rating.

Except for those which had been determined as credit-impaired under HKAS 39, ECL for other financial assets at amortised cost, including other receivables, short-term bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1st January, 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No material impact on impairment was noted at the date of initial application, i.e. 1st January, 2018.

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

HK(IFRIC) – Int 22 Foreign Currency Transactions and Advance Consideration

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Group is required to determine the date of transaction for each payment or receipt of advance consideration.

On initial application, the Group applied the interpretation prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the current year, i.e. 1st January, 2018.

For foreign currency denominated advance considerations paid by the Group in relation to acquisition of property, plant and equipment and purchases of inventories amounting to HK$128,000 and HK$887,000 respectively, the Group recorded these advances by applying the spot exchange rate on initial recognition between the functional currency of the relevant group entity and the foreign currency. Accordingly, the application of this interpretation has had no significant impact on the amounts reported and/or disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1st January, 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1st January, 2021
[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January, 2020
[5] Effective for annual periods beginning on or after 1st January, 2020

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2018, the Group has non-cancellable operating lease commitments of HK$4,597,000 as disclosed in note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

HKFRS 16 Leases (continued)

In addition, the Group currently considers refundable rental deposits paid of HK$183,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to HKFRSs Annual Improvements to HKFRSs 2015 – 2017 Cycle

HKAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1st January, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's interests in existing subsidiaries (continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

Goodwill

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

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

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

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures

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

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

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

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

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

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

Sale with a right of return

For a sale of products with a right of return, the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned); and

(b) a refund liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises sales commissions as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Revenue recognition (prior to 1st January, 2018)

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

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

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

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

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

Leasing

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

The Group as lessor

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

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

Leasehold land and building

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

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

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Government grants

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs and termination benefits

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

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

Short-term and other long-term employee benefits

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

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

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and re-measurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

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

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible, intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for debtors arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1st January, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or fair value through other comprehensive income ("FVTOCI") as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade debtors and loan receivable). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade debtors. The ECL on these assets are assessed individually for debtors with significant outstanding balances, the remaining balances are grouped based on internal credit rating.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

(i) Significant increase in credit risk (continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of “investment grade” as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade debtors, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status; and
- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade debtors and loan receivable where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1st January, 2018)

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1st January, 2018) (continued)

(i) Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the other gains and losses line item. Fair value is determined in the manner described in note 36.

(ii) Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1st January, 2018) (continued)

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

Impairment of financial assets (before application of HKFRS 9 on 1st January, 2018)

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

For all other financial assets, objective evidence of impairment could include:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Deferred taxation on investment properties

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

Revenue recognition from sales of products with no alternative use at a point in time

Under HKFRS 15, control of the asset is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts and opinion from external legal counsel. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group. Accordingly, the sales of products with no alternative use is considered to be performance obligation satisfied at a point in time.

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

Key sources of estimation uncertainty

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

Valuation of investment properties

Investment properties are carried in the consolidated statement of financial position at 31st December, 2018 at their fair values, details of which are disclosed in note 16. The fair value of the investment properties was determined by reference to valuations conducted on these properties by an independent firm of qualified professional valuers using income capitalisation approach. Property valuation techniques involve certain key inputs, such as reversion yield, monthly market rent and contracted monthly rent. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties and corresponding adjustments to the changes in fair value reported in the consolidated statement of profit or loss and other comprehensive income and the carrying amount of these properties included in the consolidated statement of financial position. The carrying amount of Group's investments properties at 31st December, 2018 was HK$177,610,000 (2017: HK$154,190,000). Details of the valuation of investment properties are disclosed in note 16.

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

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Prepaid lease payments are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Property, plant and equipment and prepaid lease payments are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets of which key assumptions include discount rates, sales growth rate and margin. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying values are written down to the recoverable amount and the amount of the write-down is charged against the results of operations. As at 31st December, 2018, the carrying value of the property, plant and equipment and prepaid lease payments were approximately HK$522,698,000 and HK$30,188,000, respectively, net of accumulated impairment loss recognised of approximately HK$466,871,000 and HK$17,913,000, respectively (2017: HK$620,327,000 and HK$32,847,000, respectively, net of accumulated impairment loss recognised of approximately HK$491,155,000 and HK$18,845,000, respectively). Details of the recoverable amount calculation are disclosed in notes 17 and 18, respectively.

Estimated impairment of intangible assets

Determining whether intangible assets (i.e. trademark and customer relationships) are impaired requires an estimation of the recoverable amount of these intangible assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2018, the carrying amount of the Group's intangible assets was HK$9,396,000 (2017: HK$11,203,000). Details of the recoverable amount calculation are disclosed in note 19.

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

Key sources of estimation uncertainty (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31st December, 2018, the carrying amount of goodwill was HK$7,760,000 (2017: HK$8,260,000). Details of the recoverable amount calculation are disclosed in note 20.

Provision of ECL for debtors

The management has properly designed and implemented on the impairment assessment by using provision matrix to calculate ECL for the trade debtors. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade debtors with significant outstanding balances and credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade debtors are disclosed in notes 36 and 26 respectively.

As at 31st December, 2018, the carrying amount of trade debtors was HK$339,056,000, net of allowance for credit loss of HK$55,394,000 (2017: HK$275,108,000, net of allowance for doubtful debts of HK$51,002,000). Details of which are disclosed in note 26.

Determination of net realisable value of inventories

The cost of inventories is written down to net realisable value when the cost of inventories is not recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. Also, the cost of inventories may not be recoverable if the estimated costs to be incurred to make the sale have increased. When the net realisable value of an item of inventory is less than the carrying amount, the excess is written down immediately in the consolidated statement of profit or loss and other comprehensive income. As at 31st December, 2018, the carrying amount of inventories was HK$182,563,000, net of allowance for inventories of HK$75,219,000 (2017: HK$158,224,000, net of allowance for inventories of HK$68,812,000).

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

Key sources of estimation uncertainty (continued)

Income taxes

As at 31st December, 2018, no deferred tax asset has been recognised on the tax losses of HK$554,978,000 (2017: HK$518,375,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

5. REVENUE AND SEGMENT INFORMATION

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

Segment revenues and results

The Group sells optical products directly to customers. Revenue is recognised when the customer obtains control of the goods, being when the goods have been delivered to specific location. Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 days to 120 days upon delivery.

Under the Group's standard contract terms, customers have a right to return within 14 days. The Group uses its accumulated historical experience to estimate the sales return on a portfolio level using the expected value method. Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A refund liability is recognised when the Group expects to refund some or all of the consideration received from customers.

All optical products are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

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

For the year ended 31st December, 2018

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Revenue from contracts with customers (Note)					
Original design manufacturing division	495,429	331,001	95,276	10,210	931,916
Distribution division	146,022	23,166	53,813	41,096	264,097
External sales	641,451	354,167	149,089	51,306	1,196,013
Result					
Segment profit (loss)	18,277	(2,509)	1,489	4,140	21,397
Unallocated income and gains					42,355
Unallocated corporate expenses and losses					(99,003)
Interest income on bank deposits					5,431
Finance costs					(1,133)
Share of profit of an associate					5,922
Loss before tax					(25,031)

Note: Revenue is recognised as "point in time" when the customer obtains control of the goods.

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the year ended 31st December, 2017

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

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

Segment assets and liabilities

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

5. REVENUE AND SEGMENT INFORMATION (continued)

Other segment information

2018

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

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Adjustments *HK$'000* *(Note)*	Consolidated *HK$'000*
Depreciation of property, plant and equipment	**6,737**	**4,501**	**1,293**	**139**	**86,037**	**98,707**
Impairment losses recognised on debtors	**550**	**3,194**	**343**	**476**	**—**	**4,563**
Allowance for inventories	**3,514**	**2,610**	**341**	**—**	**—**	**6,465**

2017

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

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

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

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

5. REVENUE AND SEGMENT INFORMATION (continued)

Geographical information

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

	Revenue from external customers *Year ended*		Non-current assets	
	2018 *HK$'000*	2017 *HK$'000*	**2018** *HK$'000*	2017 *HK$'000*
Hong Kong	—	—	**212,677**	191,918
The People's Republic of China (excluding Hong Kong) (the "PRC")	—	—	**515,517**	614,111
United States	**354,167**	298,745	**2,160**	2,160
Italy	**432,282**	365,305	**32,306**	33,304
Other countries	**409,564**	364,138	**17,811**	19,198
	1,196,013	1,028,188	**780,471**	860,691

Information about major customers

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

	2018 *HK$'000*	2017 *HK$'000*
Customer A[1]	**162,335**	121,720
Customer B[2]	**146,742**	108,596

1 Revenue from the United States
2 Revenue from Europe

6. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Included in other income are:		
Sales of scrap materials	4,716	3,919
Sales of construction materials	—	904
Compensation from customers	4,259	5,745
Interest income on bank deposits	5,431	12,344
Gross rental income from investment properties	4,302	3,640
Government subsidy	901	1,145

7. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Net foreign exchange gains	17,033	8,804
Net gain on disposal of property, plant and equipment	770	136
Increase in fair values of investment properties	20,250	12,710
Decrease in fair values of derivative financial instruments	—	(131)
Impairment loss of property, plant and equipment *(note 17)*	—	(491,155)
Impairment loss of prepaid lease payments *(note 18)*	—	(18,845)
Impairment loss of trademark *(note 19)*	—	(1,700)
Impairment loss of investment in a joint venture *(note 22)*	—	(285)
	38,053	(490,466)

8. IMPAIRMENT LOSSES

	2018 HK$'000	2017 HK$'000
Impairment losses recognised on debtors	4,563	7,487

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interests on bank borrowings	1,133	4,650

10. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
The charge comprises:		
Current year:		
Hong Kong Profits Tax	2,771	3,422
PRC Enterprise Income Tax	825	7,480
United Kingdom Corporation Tax	1,909	1,881
France Corporation Tax	764	355
South Africa Corporation Tax	97	—
Withholding tax for dividend of an associate	1,177	—
Deferred taxation *(note 34)*	2,004	(1,193)
	9,547	11,945
(Over)underprovision in respect of prior year:		
Hong Kong Profits Tax	(31)	(40)
PRC Enterprise Income Tax	(54)	(497)
United Kingdom Corporation Tax	10	—
France Corporation Tax	49	—
South Africa Corporation Tax	34	—
	8	(537)
	9,555	11,408

On 21st March, 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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

United Kingdom Corporation Tax is calculated at the applicable rate of 19% in accordance with the relevant law and regulations in the United Kingdom for both years.

10. INCOME TAX EXPENSE (continued)

France Corporation Tax is calculated at the applicable rate of 28% for amounts of taxable profit up to Euro ("€") 500,000 and a corporate tax rate of 33.33% for taxable profit above €500,000 in accordance with the relevant law and regulations in France for the year ended 31st December, 2018. The France Corporation Tax is calculated at the applicable of 33.33% for all taxable profit for the year ended 31st December, 2017.

South Africa Corporation Tax is calculated at the application rate of 28% in accordance with the relevant law and regulations in South Africa for both years.

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

	2018 *HK$'000*	2017 *HK$'000*
Loss before tax	(25,031)	(657,539)
Tax at Hong Kong Profits Tax rate of 16.5%	(4,130)	(108,494)
Tax effect of share of profit of an associate	(977)	(1,510)
Tax effect of share of profit of a joint venture	—	(13)
Tax effect of expenses not deductible for tax purpose	1,207	144
Tax effect of income not taxable for tax purpose	(4,688)	(3,991)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis *(Note)*	7,721	51,612
Under(over)provision in respect of prior year	8	(537)
Tax effect of tax losses not recognised	8,150	14,492
Tax effect of other deductible temporary differences not recognised	3	59,269
Utilisation of tax losses previously not recognised	(2,111)	(2,021)
Utilisation of deductible temporary differences previously not recognised	(2,865)	(207)
Dividend withholding tax	5,504	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	815	2,971
Effect of two-tiered tax rate of Hong Kong	(165)	—
Others	1,083	(307)
Income tax expense for the year	9,555	11,408

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

11. LOSS FOR THE YEAR

	2018 *HK$'000*	2017 *HK$'000*
Loss for the year has been arrived at after charging:		
Amortisation of intangible assets	2,005	1,930
Auditor's remuneration		
− Audit service	1,500	1,450
− Non-audit services	538	631
Cost of inventories recognised as an expense (included allowance for inventories of HK$6,465,000 (2017: HK$2,599,000))	937,947	870,675
Depreciation of the property, plant and equipment	98,707	190,247
Operating lease rentals in respect of rented premises	2,825	2,485
Release of prepaid lease payments	835	1,359
Staff costs:		
Directors' emoluments *(note 12)*	2,540	3,388
Other staff		
− Salaries and other allowances	472,121	453,229
− Contributions to retirement benefit schemes	55,721	36,904
Total staff costs	530,382	493,521
and after crediting:		
Gross rental income from investment properties	4,302	3,640
Less: Direct expenses of investment properties that generated rental income during the year	(752)	(774)
	3,550	2,866

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the five (2017: six) directors were as follows:

		Other emoluments		
	Fee	Salaries and other benefits	Contributions to retirement benefit schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2018				
Executive directors:				
Mr. Ng Hoi Ying, Michael	**—**	**1,560**	**72**	**1,632**
Mr. Ng Kim Ying	**—**	**455**	**21**	**476**
	—	**2,015**	**93**	**2,108**
Independent non-executive directors:				
Mr. Wong Chi Wai	**144**	**—**	**—**	**144**
Mr. Chung Hil Lan Eric	**144**	**—**	**—**	**144**
Mr. Lam Yu Lung	**144**	**—**	**—**	**144**
	432	**—**	**—**	**432**
Total emoluments	**432**	**2,015**	**93**	**2,540**
2017				
Executive directors:				
Mr. Ng Hoi Ying, Michael	—	1,420	65	1,485
Mr. Ng Kim Ying	—	435	20	455
Mr. Lee Wai Chung (resigned on 30th June, 2017)	—	976	40	1,016
	—	2,831	125	2,956
Independent non-executive directors:				
Mr. Wong Chi Wai	144	—	—	144
Mr. Chung Hil Lan Eric	144	—	—	144
Mr. Lam Yu Lung	144	—	—	144
	432	—	—	432
Total emoluments	432	2,831	125	3,388

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

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2017: one) executive director, details of whose emoluments are set out in note 12 above. Details of the emoluments for the year of the remaining four (2017: four) highest paid employees who are not director of the Company are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Salaries and other benefits	5,394	4,191
Performance related incentive bonus	505	303
Contributions to retirement benefit schemes	433	304
Termination benefits	—	931
	6,332	5,729

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

	2018 *No. of employees*	2017 *No. of employees*
HK$1,000,001 to HK$1,500,000	2	3
HK$1,500,001 to HK$2,000,000	2	1
	4	4

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

14. DIVIDENDS

	2018 *HK$'000*	2017 *HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
First special dividend paid of 5.0 HK cents in respect of 2018 (2017: 2.0 HK cents in respect of 2017) per share	19,183	7,673
Second special dividend paid of 25.0 HK cents per share in respect of 2016	—	95,913
	19,183	103,586

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31st December, 2018, has been proposed by the Directors (2017: nil).

14. DIVIDENDS (continued)

During the year, scrip dividend alternatives were offered in respect of the special dividend for the six months period ended 30th June, 2018. The scrip dividend alternatives were accepted by the minority of ordinary shareholders, as follows:

	Year ended 2018 *HK$'000*
Special dividend:	
Cash	**14,166**
Ordinary share alternative	**5,017**
	19,183

15. LOSS PER SHARE

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

	2018 *HK$'000*	2017 *HK$'000*
Loss for the purpose of basic loss per share – Loss for the year attributable to owners of the Company	**(38,294)**	(674,549)
	Number of shares	
Weighted average number of shares for the purpose of basic loss per share	384,093,916	383,650,000

No diluted loss per share has been presented as there was no potential ordinary shares in issue during 2018 and 2017.

The weighted average number of shares for the purpose of basic loss per share has been adjusted for the scrip dividend on 31st October, 2018.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2017	141,480
Increase in fair value recognised in profit or loss	12,710
At 31st December, 2017	154,190
Reclassification from property, plant and equipment *(note 17)*	3,170
Increase in fair value recognised in profit or loss	20,250
At 31st December, 2018	177,610

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

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

On 31st December, 2018 and 31st December, 2017, independent valuations were undertaken by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers not connected to the Group which has appropriate professional qualifications and recent experience in the valuation of similar properties in the neighbourhood.

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

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

16. INVESTMENT PROPERTIES (continued)

The following table gives information about how the fair values of the Group's investment properties as at 31st December, 2018 and 31st December, 2017 are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Sensitivity
Investment properties in Hong Kong	Level 3	Income capitalisation approach		
		The key inputs are		
		(1) Reversion yield	Reversion yield, taking into account of the capitalisation of rental income potential, nature of the property and prevailing market condition, ranging from 2.7% to 3.0% (2017: 2.7% to 3.5%) per annum.	A slight increase in the reversion yield used would result in a significant decrease in the fair value measurement of the investment properties, and vice versa.
		(2) Monthly market rent	Monthly market rent, taking into account of time, location and individual factors such as frontage and size, between the comparable and the property, ranging from HK$25.32 to HK$28.0 (2017: HK$25.0 to HK$26.86) per square foot per month on lettable area basis for the office portion of the property and ranging from HK$3,000 to HK$3,400 (2017: HK$3,000 to HK$3,200) per car parking space per month for the car parking space portion of the property.	A slight increase in the monthly market rent used would result in a significant increase in the fair value measurement of the investment properties, and vice versa.

The fair values of all investment properties at 31st December, 2018 and 31st December, 2017 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy. There were no transfers into or out of Level 3 during the year.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Buildings under construction HK$'000	Total HK$'000
COST								
At 1st January, 2017	37,509	658,891	508,983	743,154	43,425	10,847	41,014	2,043,823
Exchange realignment	—	41,148	52,823	49,352	2,680	771	3,399	150,173
Additions	—	906	131,818	4,783	2,752	110	1,982	142,351
Disposals	—	—	—	(22,705)	(29)	(273)	—	(23,007)
Disposal of a subsidiary *(note 42)*	—	(477)	—	—	—	—	—	(477)
Reclassification	—	6,188	38,186	—	—	—	(44,374)	—
At 31st December, 2017	37,509	706,656	731,810	774,584	48,828	11,455	2,021	2,312,863
Exchange realignment	—	(28,596)	(45,061)	(40,945)	(1,595)	(749)	(126)	(117,072)
Additions	—	1,872	3,576	18,354	1,997	2,526	2,337	30,662
Disposals	—	—	—	(25,356)	(3,492)	(1,923)	—	(30,771)
Reclassification to investment properties *(Note)*	(920)	(638)	—	—	—	—	—	(1,558)
Reclassification	—	1,493	960	—	—	—	(2,453)	—
At 31st December, 2018	36,589	680,787	691,285	726,637	45,738	11,309	1,779	2,194,124
DEPRECIATION AND AMORTISATION								
At 1st January, 2017	5,813	97,194	149,564	670,187	28,585	8,307	—	959,650
Exchange realignment	—	6,518	20,881	44,803	1,648	579	—	74,429
Provided for the year	1,040	27,203	130,306	25,691	5,089	918	—	190,247
Impairment loss recognised in profit or loss	—	263,652	195,671	25,938	5,443	451	—	491,155
Eliminated on disposals	—	—	—	(22,662)	(21)	(199)	—	(22,882)
Eliminated on disposal of a subsidiary *(note 42)*	—	(63)	—	—	—	—	—	(63)
At 31st December, 2017	6,853	394,504	496,422	743,957	40,744	10,056	—	1,692,536
Exchange realignment	—	(16,070)	(31,648)	(39,305)	(1,188)	(654)	—	(88,865)
Provided for the year	1,019	14,010	67,347	12,670	2,840	821	—	98,707
Eliminated on disposals	—	—	—	(25,323)	(3,475)	(1,850)	—	(30,648)
Eliminated on reclassification to investment properties *(Note)*	(154)	(150)	—	—	—	—	—	(304)
At 31st December, 2018	7,718	392,294	532,121	691,999	38,921	8,373	—	1,671,426
CARRYING VALUES								
At 31st December, 2018	28,871	288,493	159,164	34,638	6,817	2,936	1,779	522,698
At 31st December, 2017	30,656	312,152	235,388	30,627	8,084	1,399	2,021	620,327

Note: During the year, the Group changed the usage of two properties from owner occupation to investment properties. Accordingly, the relevant portion of the properties with a net carrying value of HK$1,254,000 was transferred from property, plant and equipment to investment properties at their fair values on the date of transfer of HK$3,170,000 which were determined by the Directors with reference to the valuation carried out by Vigers at the dates of transfer. The difference between the fair values of these properties and their carrying values at the date of transfer amounting to HK$1,916,000 has been credited to property revaluation reserve.

17. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

At 31st December, 2018, leasehold land with carrying value of HK$28,871,000 (2017: HK$30,656,000) is situated in Hong Kong and held under a finance lease.

For the year ended 31st December, 2017, the Group performed substantially below budget due to decrease in sales orders from certain key customers. In the 4th quarter of year 2017, the management of the Group considered there were impairment indicators and hence conducted an impairment assessment on the relevant property, plant and equipment and prepaid lease payments, which constitutes an individual cash-generating unit ("CGU") of manufacturing and distribution business for the purpose of impairment assessment. The recoverable amounts of the respective CGU have been determined at higher of fair value less costs of disposal and value in use of the property, plant and equipment and prepaid lease payments to which the relevant assets belong to. The value in use calculations were based on the cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, in which 15.90% and 7.95% sales growth rate in first two years and subsequent three years, respectively. The cash flows beyond the 5-year period are extrapolated up to the end of the relevant useful life of the building fixtures with zero growth rate, and at a discount rate of 14.10% which was provided by an independent professional appraiser.

As at 31st December, 2018, the management of the Group has conducted a review on the impairment assessment on the CGU. The value in use calculations were based on the cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, in which 13.30% and 6.66% sales growth rate in first two years and subsequent three years, respectively. The cash flows beyond the 5-year period are extrapolated up to the end of the relevant useful life of the building fixtures with zero growth rate, and at a discount rate of 13.31% which was provided by an independent professional appraiser.

Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the future changes in the market.

No impairment loss has been recognised on the CGU during year ended 31st December, 2018. During the year ended 31st December, 2017, an impairment loss of HK$491,155,000 and HK$18,845,000 respectively has been recognised in respect of property, plant and equipment and prepaid lease payments respectively, of the Group, which has been allocated to the buildings, leasehold improvements, plant and machinery, furniture, fixtures and office equipment and motor vehicles of property, plant and equipment as well as prepaid lease payments.

The Group is in the process of obtaining the property ownership certificates in respect of certain buildings located in the PRC with carrying value of HK$184,573,000 at 31st December, 2018 (2017: HK$195,956,000).

18. PREPAID LEASE PAYMENTS

	2018 *HK$'000*	2017 *HK$'000*
Analysed for reporting purposes as:		
Current asset	**802**	849
Non-current asset	**29,386**	31,998
	30,188	32,847

The Group is in the process of obtaining the land use right certificates in respect of certain leasehold land located in the PRC with carrying value of HK$20,279,000 at 31st December, 2018 (2017: HK$21,833,000).

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

19. INTANGIBLE ASSETS

	Trademark *HK$'000*	**Customer relationships** *HK$'000*	**Total** *HK$'000*
COST			
At 1st January, 2017	4,680	12,268	16,948
Exchange realignment	—	1,527	1,527
At 31st December, 2017	4,680	13,795	18,475
Exchange realignment	—	(769)	(769)
At 31st December, 2018	4,680	13,026	17,706
AMORTISATION AND IMPAIRMENT			
At 1st January, 2017	820	3,000	3,820
Provided for the year	—	1,313	1,313
Impairment loss recognised in profit or loss	1,700	—	1,700
Exchange realignment	—	439	439
At 31st December, 2017	2,520	4,752	7,272
Provided for the year	—	1,362	1,362
Exchange realignment	—	(324)	(324)
At 31st December, 2018	2,520	5,790	8,310
CARRYING VALUES			
At 31st December, 2018	2,160	7,236	9,396
At 31st December, 2017	2,160	9,043	11,203

19. INTANGIBLE ASSETS (continued)

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

Trademark	indefinite
Customer relationships	straight-line basis over 10 years

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

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

The recoverable amount of the trademark has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculation uses cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years, and at a discount rate of 13% (2017: 14%). The cash flows beyond the 5-year period are extrapolated using a 0% (2017: 0%) growth rate. Cash flow projections during the budget period for the trademark are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

Based on the discounted cash flow projections, the recoverable amount of the trademark is estimated to be higher than its carrying amount. Accordingly, the management of the Group determined that no impairment loss on trademark (2017: impairment loss of HK$1,700,000) is recognised in profit or loss for the year ended 31st December, 2018.

20. GOODWILL

	HK$'000
COST	
At 1st January, 2017	7,455
Exchange realignment	805
At 31st December, 2017	8,260
Exchange realignment	(500)
At 31st December, 2018	7,760
IMPAIRMENT	
At 1st January, 2017, 31st December, 2017 and 31st December, 2018	—
CARRYING VALUES	
At 31st December, 2018	7,760
At 31st December, 2017	8,260

20. GOODWILL (continued)

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

The recoverable amount of the CGU has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculation uses cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years, and at a discount rate of 13% (2017: 14%). The cash flows beyond the 5-year period are extrapolated using a 0% (2017: 0%) growth rate. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management of the Group believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregated recoverable amount of CGU.

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

21. INTEREST IN AN ASSOCIATE

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

	2018 ***HK$'000***	2017 *HK$'000*
Cost of investment in an associate *(Notes)*		
– Unlisted	**26,461**	26,461
– Amortisation of intangible asset	**(2,735)**	(2,092)
– Exchange realignment	**(1,290)**	(1,019)
	22,436	23,350
Share of post-acquisition profit or loss and other comprehensive income	**9,870**	9,954
	32,306	33,304

21. INTEREST IN AN ASSOCIATE (continued)

Notes:

(1) Breakdown of cost of investment

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

(2) Movement of intangible asset – customer relationships

	HK$'000
At 1st January, 2017	4,287
Amortisation recognised in profit or loss	(617)
Exchange realignment	633
At 31st December, 2017	4,303
Amortisation recognised in profit or loss	(643)
Exchange realignment	(181)
At 31st December, 2018	3,479

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

(3) Movement of goodwill

	HK$'000
At 1st January, 2017	1,670
Exchange realignment	261
At 31st December, 2017	1,931
Exchange realignment	(90)
At 31st December, 2018	1,841

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

21. INTEREST IN AN ASSOCIATE (continued)

The Group's trade debtor balance and trade creditor balance due from/to the associate are disclosed in notes 26 and 29 respectively.

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

Name of associate	Form of business structure	Place of incorporation/ registration and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activity
				2018	2017	2018	2017	
Trenti Industria Occhiali S.r.l. ("Trenti")	Incorporated	Italy	Ordinary	50%	50%	50%	50%	Manufacture of and trading in prescription frames and sunglasses

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

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

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

	2018 *HK$'000*	2017 *HK$'000*
Current assets	170,784	107,340
Non-current assets	19,356	22,494
Current liabilities	(139,698)	(79,224)
Net assets	50,442	50,610

	2018 *HK$'000*	2017 *HK$'000*
Income recognised in profit or loss	221,901	208,842
Expenses recognised in profit or loss	210,057	190,534
Other comprehensive (expense) income – exchange reserve	(2,962)	5,806
Dividend received from the associate during the year	4,525	4,225

21. INTEREST IN AN ASSOCIATE (continued)

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

	2018 *HK$'000*	2017 *HK$'000*
Net assets of the associate	**50,442**	50,610
Proportion of the Group's interest in the associate	**50%**	50%
Net assets of the associate attributable to the Group's interest	**25,221**	25,305
Goodwill	**1,841**	1,931
Intangible asset	**3,479**	4,303
Other adjustments	**1,765**	1,765
Carrying amount of the Group's interest in the associate	**32,306**	33,304

22. INTEREST IN A JOINT VENTURE

	2018 *HK$'000*	2017 *HK$'000*
Cost of unlisted investment in a joint venture *(Note)*	**1,041**	1,041
Share of post-acquisition profit or loss and other comprehensive income	**196**	196
	1,237	1,237
Loan to a joint venture	**3,714**	3,714
	4,951	4,951
Impairment loss recognised in profit or loss	**(4,951)**	(4,951)
	—	—

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

The loan to the joint venture of HK$3,714,000 (2017: HK$3,714,000) included in the Group's non-current assets is unsecured, carries interest at 0.01% per annum and not repayable within one year from the end of the reporting period.

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

22. INTEREST IN A JOINT VENTURE (continued)

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

Name of joint venture	Form of business structure	Place of incorporation/ registration and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activity
				2018	2017	2018	2017	
廣州佳視美光學眼鏡有限公司 (known as "Guangzhou Jiashimei Optical Company Limited")	Incorporated	PRC	Ordinary	27%	27%	27%	27%	Trading in prescription frames and sunglasses

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

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

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

	2018 *HK$'000*	2017 *HK$'000*
Current assets	18,474	18,474
Non-current assets	32	32
Current liabilities	(2,572)	(2,572)
Non-current liabilities	(13,810)	(13,810)
Net assets	2,124	2,124

	2018 *HK$'000*	2017 *HK$'000*
Income recognised in profit or loss	—	10,146
Expenses recognised in profit or loss	—	(9,857)
Other comprehensive income – exchange reserve	—	768
Dividend received from the joint venture during the year	—	—

22. INTEREST IN A JOINT VENTURE (continued)

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

	2018 *HK$'000*	2017 *HK$'000*
Net assets of the joint venture	**2,124**	2,124
Proportion of the Group's interest in the joint venture	**27%**	27%
Net assets of the joint venture attributable to the Group's interest	**573**	573
Goodwill	**708**	708
	1,281	1,281
Loan	**3,714**	3,714
Other adjustments	**(44)**	(44)
	4,951	4,951
Impairment loss recognised in profit or loss	**(4,951)**	(4,951)
Carrying amount of the Group's interest in the joint venture	**—**	—

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

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

The management of the Group assess the carrying amount of the Group's interest in the joint venture at the end of each reporting period. Based on the assessment, the recoverable amount of the Group's interest in the joint venture is estimated to be less than its carrying amount. Accordingly, the management of the Group determined that no reversal of impairment loss (2017: impairment loss of HK$285,000) is recognised in profit or loss for the year ended 31st December, 2018.

23. LOAN RECEIVABLE

	2018 HK$'000	2017 HK$'000
Carrying amount analysed for reporting purposes:		
Non-current assets (receivable after 12 months from the end of the reporting period)	—	—

Movement in the carrying amount of loan receivable:

	2018 HK$'000	2017 HK$'000
At 1st January	—	—
Impairment loss recognised in profit or loss	—	—
Exchange realignment	—	—
At 31st December	—	—

The loan receivable is granted to an independent corporate customer and is denominated in United States dollars. The amount carries fixed interest rate at 5% per annum and is repayable through 24 quarterly instalments of US$72,500 (equivalent to approximately HK$568,000) commencing in October 2016 with a balance payment of US$17,500 (equivalent to approximately HK$137,000) in October 2022. The amount is secured by all assets held by the corporate customer.

As at 31st December, 2018, included in the Group's loan receivable balance are debtors with aggregate carrying amount of US$1,757,500 (equivalent to approximately HK$13,765,000) which are past due more than 360 days as at the reporting date. The Directors considers credit risks have increased significantly and those past due more than 360 days are considered as credit-impaired.

Included in the carrying amount of loan receivable as at 31st December, 2018 is accumulated impairment losses of US$1,757,500 (equivalents to approximately HK$13,765,000) (2017: US$1,757,500 (equivalents to approximately HK$13,765,000)). Details of impairment assessment for the year ended 31st December, 2018 are set out in note 36.

The Directors assess the collectability on the carrying value of the loan receivable at the end of each reporting period. Based on the assessment, the recoverable amount of the loan receivable is estimated to be less than its carrying amount with reference to the repayments history and the net realisable value of all assets of this corporate customer. Accordingly, the management of the Group determined that an impairment loss of the entire amount of loan receivable was recognised in profit or loss in previous years.

24. OTHER RECEIVABLES

	2018 *HK$'000*	2017 *HK$'000*
Carrying amount analysed for reporting purposes:		
Non-current assets (receivable after 12 months from the end of the reporting period)	—	787
Current assets (receivable within 12 months from the end of the reporting period)	881	1,007
	881	1,794

Movement in the carrying amount of other receivables:

	2018 *HK$'000*	2017 *HK$'000*
At 1st January	1,794	2,294
Imputed interest income recognised in profit or loss	137	214
Repayments	(953)	(1,007)
Exchange realignment	(97)	293
At 31st December	881	1,794

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

24. OTHER RECEIVABLES (continued)

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

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

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

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

At the end of the reporting period, the interest-free other receivables are carried at amortised cost, which represents the difference between the carrying amount and the present value of the estimated future cash flows discounted at an effective interest rate of 3.70% (2017: 3.70%) and 4.46% (2017: 4.46%) for Stepper UK Price and Stepper France Loan Price, respectively.

24. OTHER RECEIVABLES (continued)

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

	2018	2017
	HK$'000	*HK$'000*
Euro	**362**	740
British Pound Sterling	**519**	1,054

Details of impairment assessment of other receivables for the year ended 31st December, 2018 are set out in note 36.

25. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**30,809**	33,533
Work in progress	**106,024**	98,223
Finished goods	**45,730**	26,468
	182,563	158,224

26. DEBTORS, DEPOSITS AND PREPAYMENTS

	2018	2017
	HK$'000	*HK$'000*
Trade debtors from contracts with customers	**394,450**	326,110
Less: Allowance for credit losses	**(55,394)**	(51,002)
	339,056	275,108
Bills receivables	**505**	779
Other debtors, deposits and prepayments	**15,798**	13,291
Total debtors, deposits and prepayments	**355,359**	289,178

26. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

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

	2018 HK$'000	2017 HK$'000
Hong Kong dollars	891	683
Renminbi	11,166	30,791
Euro	1,182	203
United States dollars	40,574	30,602
Japanese Yen	31	—

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

	2018 HK$'000	2017 HK$'000
0 – 90 days	234,801	192,963
91 – 180 days	101,281	76,327
More than 180 days	2,974	5,818
	339,056	275,108

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

	2018 HK$'000	2017 HK$'000
0 – 90 days	495	779
91 – 180 days	10	—
	505	779

As at 31st December, 2018, included in the Group's trade debtors balance are debtors with aggregate carrying amount of HK$90,981,000 which are past due as at the reporting date. Out of the past due balances, HK$2,811,000 has been past due 90 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

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

26. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

As at 31st December, 2017, included in the Group's trade debtors balance are debtors with aggregate carrying amount of HK$71,266,000 which are past due at the reporting date for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

Aging of trade debtors which are past due but not impaired

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

Aging of bills receivables which are past due but not impaired

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

Movement in the allowance for doubtful debts

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

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

As at 31st December, 2017, included in the allowance for doubtful debts were individually impaired trade debtors with an aggregate balance of HK$51,002,000 which are in severe financial difficulties and therefore the Directors considered that they are irrecoverable.

26. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Movement in the allowance for doubtful debts (continued)

Details of impairment assessment of trade and other debtors for the year ended 31st December, 2018 are set out in note 36.

Trade debtors due from the associate, joint venture and non-controlling shareholder of a subsidiary

Included in the Group's trade debtors is an amount due from the Group's associate of HK$31,172,000 net of allowance for credit losses of HK$200,000 (2017: HK$23,708,000 net of allowance for credit losses of nil), an amount due from the Group's joint venture of HK$182,000 net of allowance for credit losses of HK$34,000 (2017: HK$126,000) and an amount due from the non-controlling shareholder of a subsidiary of the Group of HK$915,000 (2017: HK$148,000), which are repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. The amounts outstanding are unsecured with carrying amount of HK$3,643,000 which are past out of the past due balances, HK$405,000 has been past due 90 days or more and is not considered as in default. An impairment loss of HK$234,000 (2017: nil) has been recognised in respect of the amounts outstanding from the associate and joint venture.

27. STRUCTURED DEPOSITS

At 31st December, 2017, principal-protected floating income structured deposits are placed with a bank in the PRC and the returns of which are determined by reference to the change in interest rates quoted in the market. The structured deposits are designated as financial assets at FVTPL on initial recognition. The principal amounts of the structured deposits are RMB95,000,000 (equivalent to approximately HK$114,911,000) which carry interests ranging from 0% to 4.50% per annum, dependent on three-month London Interbank Offered Rate for deposits in United States dollars during the period from inception date to maturity date of the deposit agreements. The fair value of the structured deposits at the end of reporting period as determined by the issuer, being a financial institution, was HK$114,911,000. All structured deposits were released during the year ended 31st December, 2018.

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

Bank balances carry market interest rates which range from 0.001% to 1.60% (2017: 0.001% to 0.300%) in 2018 per annum and short-term bank deposits carried market rate at 1.35% in 2017 per annum.

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

	2018 *HK$'000*	2017 *HK$'000*
Hong Kong dollars	18,312	11,019
Renminbi	236	48
Euro	1,640	4,478
United States dollars	13,948	15,953
Japanese Yen	132	543
British Pound Sterling	5,769	6,132

Details of impairment assessment of short-term bank deposits and bank balances for the year ended 31st December, 2018 are set out in note 36.

29. CREDITORS AND ACCRUED CHARGES

	2018 *HK$'000*	2017 *HK$'000*
Trade creditors	113,023	98,840
Other creditors and accrued charges	286,092	317,424
	399,115	416,264

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

	2018 *HK$'000*	2017 *HK$'000*
Hong Kong dollars	64,745	55,384
Renminbi	19,060	14,074
Euro	3,850	4,491
United States dollars	924	1,770
Japanese Yen	765	1,922

29. CREDITORS AND ACCRUED CHARGES (continued)

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

	2018 *HK$'000*	2017 *HK$'000*
0 – 60 days	**98,051**	81,849
61 – 120 days	**12,771**	13,793
More than 120 days	**2,201**	3,198
	113,023	98,840

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

Trade creditor due to the associate

Included in the Group's trade creditors is an amount due to the Group's associate of HK$532,000 (2017: HK$503,000), which is repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature. The amount outstanding is unsecured and not past due at the end of the reporting period.

30. CONTRACT LIABILITIES

	31.12.2018 *HK$'000*	1.1.2018 *HK$'000*
Optical products	13,363	8,294

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Optical products *HK$'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year	7,771

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

– Optical products

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

31. REFUND LIABILITIES

	2018 HK$'000
Refund liabilities:	
Arising from right of return	4,865

32. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Secured bank borrowings	30,641	56,687
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	5,325	26,054
– more than one year, but not exceeding two years	5,491	5,365
– more than two years, but not exceeding five years	17,522	17,003
– more than five years	2,303	8,265
	30,641	56,687
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	(30,641)	(56,687)
Amounts due after one year shown under non-current liabilities	—	—

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK$23,046,000 (2017: HK$27,014,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties, leasehold land and buildings with carrying amount of HK$177,610,000 (2017: HK$155,455,000).

A bank borrowing of HK$7,595,000 (2017: HK$8,840,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$30,441,000 (2017: HK$31,585,000) and carries interest at one-month Hong Kong Interbank Offered Rate ("HIBOR") plus 1.8%.

At 31st December, 2017, a bank borrowing of HK$20,833,000 was secured by the Group's leasehold land and buildings with carrying amount of HK$35,887,000 (including leasehold land and building with carrying amount of HK$31,585,000 as mentioned-above) and carried interest at one-month HIBOR plus 2.9%. During the year ended 31st December, 2018, this bank borrowing has been fully repaid.

32. BANK BORROWINGS (continued)

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

	2018	2017
Variable-rate borrowings	**3.09%**	3.19%

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

	2018 *HK$'000*	2017 *HK$'000*
Hong Kong dollars	**—**	20,833

33. SHARE CAPITAL

The share capital of the Company was as follows:

	Number of shares		**Nominal value**	
	31.12.2018	31.12.2017	**31.12.2018** *HK$'000*	31.12.2017 *HK$'000*
Ordinary shares of HK$0.1 each:				
Authorised:				
At beginning and end of year	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of year	**383,650,000**	383,650,000	**38,365**	38,365
Issue of scrip dividend *(Note)*	**2,613,374**	—	**261**	—
At end of year	**386,263,374**	383,650,000	**38,626**	38,365

Note: On 31st October, 2018, the Company issued and allotted 2,613,374 shares at an issue price of HK$1.92 per share in respect of the special dividend for the six months ended 30th June, 2018 under the scrip dividend scheme. Except for the entitlement to the said special dividend, the 2,613,374 ordinary shares issued rank *pari passu* in all respects with the then existing ordinary shares.

As a result, during the year ended 31st December, 2018, the Company's share capital and share premium were in aggregate increased by approximately HK$261,000 and HK$4,756,000 respectively.

34. DEFERRED TAX (LIABILITIES) ASSETS

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

	2018 *HK$'000*	2017 *HK$'000*
Deferred tax assets	**391**	206
Deferred tax liabilities	**(12,022)**	(9,795)
	(11,631)	(9,589)

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

	Undistributable profits of an associate *HK$'000*	**Accelerated tax depreciation** *HK$'000*	**Other temporary difference** *HK$'000* *(Note)*	**Total** *HK$'000*
At 1st January, 2017	—	(7,838)	(2,964)	(10,802)
(Charge) credit to profit or loss	—	(272)	1,465	1,193
Exchange realignment	—	20	—	20
	—	(252)	1,465	1,213
At 31st December, 2017	—	(8,090)	(1,499)	(9,589)
(Charge) credit to profit or loss	(4,327)	3,528	(1,205)	(2,004)
Exchange realignment	—	(38)	—	(38)
	(4,327)	3,490	(1,205)	(2,042)
At 31st December, 2018	(4,327)	(4,600)	(2,704)	(11,631)

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

At 31st December, 2018, the Group has unused tax losses of HK$554,978,000 (2017: HK$518,375,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$31,870,000 (2017: HK$40,460,000) that will expire from 2019 to 2023 (2017: expire from 2018 to 2022). Other losses may be carried forward indefinitely.

34. DEFERRED TAX (LIABILITIES) ASSETS (continued)

At the end of the reporting period, the Group has deductible temporary differences of HK$359,039,000 (2017: HK$376,384,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

35. CAPITAL RISK MANAGEMENT

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

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

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

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 *HK$'000*	2017 *HK$'000*
Financial assets		
Financial assets at amortised cost	564,809	—
Loans and receivables (including cash and cash equivalents)	—	515,001
Fair value through profit or loss – Structured deposits	—	114,911
Financial liabilities		
Amortised cost	216,671	236,320

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

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

Market risk

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

(i) Currency risk

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group also has other receivables, trade and other debtors, short-term bank deposits, bank balances and cash, trade and other creditors as well as bank borrowings denominated in foreign currency balances. Details of foreign currency balances are detailed in notes 24, 26, 28, 29 and 32.

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

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**19,203**	11,702	**64,745**	76,217
Renminbi	**11,402**	30,839	**19,060**	14,074
Euro	**3,184**	5,421	**3,850**	4,491
United States dollars	**54,522**	46,555	**924**	1,770
Japanese Yen	**163**	543	**765**	1,922
British Pound Sterling	**6,288**	7,186	**—**	—

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in currency of Renminbi, Euro, Japanese Yen and British Pound Sterling. HK$ and US$ denominated monetary items arose from group entities with functional currency of US$ and HK$ respectively. As HK$ is pegged to US$, the Directors consider that the foreign currency exposure is limited.

36. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% (2017: 5%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items (other than those denominated in HK$ and US$ and adjusts their translation at the period end for a 5% (2017: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax loss where the functional currencies of the relevant group entities strengthen against the relevant foreign currencies. For a 5% (2017: 5%) weakening of the functional currencies of the relevant group entities, there would be an equal and opposite impact on the post-tax loss, and the balances below would be negative.

	Decrease (increase) in loss for the year (post-tax)	
	2018	2017
	HK$'000	*HK$'000*
Renminbi	**383**	(838)
Euro	**33**	(47)
Japanese Yen	**30**	69
British Pound Sterling	**(314)**	(359)

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

(ii) Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate structured deposits, short-term bank deposits, bank balances and borrowings (see notes 27, 28 and 32 respectively for details of these financial instruments). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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

36. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

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

The sensitivity analysis below has been determined based on the exposure to interest rates for structured deposits invested, short-term bank deposits placed and borrowings outstanding at the end of the reporting period. The analysis is prepared assuming the structured deposits invested, short-term bank deposits placed and borrowings outstanding at the end of the reporting period were placed and outstanding for the whole year. A 50 basis point (2017: 50 basis point) represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31st December, 2018 would increase/decrease by HK$153,000 (2017: decrease/increase by HK$406,000). This is mainly attributable to the Group's exposure to interest rates on its structured deposits invested, short-term bank deposits placed and borrowings outstanding.

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

Credit risk and impairment assessment

As at 31st December, 2018, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group carries out research on the creditability of new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed at least once a year. Trade debtors that are neither past due nor impaired have good track records with the Group. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risks on bank balances and short-term bank deposits are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

36. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

At 31st December, 2018, the Group's concentration of credit risk by geographical locations is mainly in Italy, which accounted for 53% (2017: 54%) of the total trade debtors.

At 31st December, 2018, the Group has concentration of credit risk as 22% (2017: 19%) and 45% (2017: 48%) of the total trade debtors was due from the Group's largest customer and the five largest customers.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade debtors	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

36. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2018	*Notes*	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
				HK$'000	*HK$'000*
Financial assets at amortised cost					
Loan receivable	23	Loss	Credit-impaired	13,765	13,765
Other receivables	24	*Note 1*	12m ECL	881	881
Other debtors and bills receivables	26	*Note 1*	12m ECL	2,594	2,594
Trade debtors	26	*Note 2*	Lifetime ECL (significant outstanding balance)	203,391	
		Note 2	Lifetime ECL (provision matrix)	148,137	
		Loss	Credit-impaired	42,922	394,450

Notes:

(1) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due	Not past due/no fixed repayment terms	Total
	HK$'000	*HK$'000*	*HK$'000*
Other debtors and bills receivables	—	2,594	2,594
Other receivables	—	881	881

(2) For trade debtors, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

36. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

Provision matrix – internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade debtors which are assessed based on provision matrix as at 31st December, 2018 within lifetime ECL (not credit-impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of HK$203,391,000 and HK$42,922,000 respectively as at 31st December, 2018 were assessed individually.

Gross carrying amount

Internal credit rating	**Trade debtors** *HK$'000*
Low risk	32,483
Watch list	107,644
Doubtful	8,010
	148,137

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31st December, 2018, the Group provided HK$218,000 impairment allowance for trade debtors, based on the provision matrix. Impairment allowance of HK$3,638,000 and HK$707,000 were made on debtors with significant outstanding balances and credit-impaired debtors respectively.

36. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade debtors under the simplified approach.

	Lifetime ECL (not credit-impaired) *HK$'000*	Lifetime ECL (credit-impaired) *HK$'000*	Total *HK$'000*
As at 31st December, 2017 under HKAS 39	8,964	42,038	51,002
Adjustment upon application of HKFRS 9	—	—	—
As at 1st January, 2018 – As restated	8,964	42,038	51,002
Changes due to financial instruments recognised as at 1st January:			
– Transfer to credit-impaired	(177)	177	—
– Impairment losses recognised	3,856	707	4,563
– Write-offs	(160)	—	(160)
Exchange realignment	(11)	—	(11)
As at 31st December, 2018	12,472	42,922	55,394

Changes in the loss allowance for trade debtors are mainly due to:

	31.12.2018 Increase (decrease) in lifetime ECL	
	Not credit-impaired *HK$'000*	Credit-impaired *HK$'000*
Four trade debtors with a gross carrying amount of HK$884,000 defaulted and transferred to credit-impaired as at 31st December, 2018	(177)	177

36. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

The Group writes off a trade debtor when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade debtor are over three years past due, whichever occurs earlier. None of the trade debtors that have been written off is subject to enforcement activities.

Liquidity risk

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

As at 31st December, 2018, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$3,000,000 (2017: HK$3,000,000) and HK$92,980,000 (2017: HK$110,980,000) respectively. The facilities expiring within one year are annual facilities subject to review at various dates during 2019.

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

36. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

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

	Weighted average effective interest rate	On demand or less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31st December, 2018					
Non-derivative financial liabilities					
Creditors and accrued charges	**—**	**183,152**	**2,878**	**186,030**	**186,030**
Bank borrowings – variable rate	**3.09**	**30,641**	**—**	**30,641**	**30,641**
		213,793	**2,878**	**216,671**	**216,671**
31st December, 2017					
Non-derivative financial liabilities					
Creditors and accrued charges	—	177,360	2,273	179,633	179,633
Bank borrowings – variable rate	3.19	56,687	—	56,687	56,687
		234,047	2,273	236,320	236,320

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 3 months" time band in the above maturity analysis. As at 31st December, 2018 and 31st December, 2017, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$30,641,000 and HK$56,687,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that these outstanding bank borrowings at 31st December, 2018 will be fully repaid by June 2024 in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	Maturity Analysis – Bank loans with a repayment on demand clause based on scheduled repayments					
	0 – 3 months	4 – 12 months	> 1 – < 2 year	> 2 – < 5 years	> 5 years	Total undiscounted cash outflows
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31st December, 2018	**1,549**	**4,647**	**6,196**	**18,587**	**2,321**	**33,300**
31st December, 2017	14,200	12,976	6,137	18,410	8,431	60,154

36. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

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

(c) Fair value measurements of financial instruments

Fair value of financial asset and financial liabilities that are measured at fair value on a recurring basis

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

Financial assets at FVTPL	Fair values as at 31.12.2018 HK$'000	Fair values as at 31.12.2017 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Structured deposits designated as financial assets at FVTPL in the consolidated statement of financial position	—	114,911	Level 2	Discounted cash flow. Future cash flows are estimated based on quoted interest rates which are observable at the end of the reporting period, discounted at a rate that reflects the credit risk of various counterparties.

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

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

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

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank borrowings *HK$'000*	**Dividend payable** *HK$'000*	**Total** *HK$'000*
At 1st January, 2017	218,857	—	218,857
Financing cash flows	(166,820)	(104,193)	(271,013)
Interest expenses	4,650	—	4,650
Dividends declared	—	104,193	104,193
At 31st December, 2017	56,687	—	56,687
Financing cash flows	(27,179)	(14,737)	(41,916)
Interest expenses	1,133	—	1,133
Dividends declared	—	19,754	19,754
Scrip dividend issued	—	(5,017)	(5,017)
At 31st December, 2018	30,641	—	30,641

38. RETIREMENT BENEFIT SCHEMES

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

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

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

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of HK$55,814,000 (2017: HK$37,029,000) represents contributions paid and payable to these schemes by the Group. At the end of the reporting period, there was no forfeited contribution available to reduce future contributions in both years.

39. OPERATING LEASES

The Group as lessor:

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

	2018 *HK$'000*	2017 *HK$'000*
Within one year	3,163	3,399
In the second to fifth year inclusive	773	2,096
	3,936	5,495

Property rental income earned during the year was HK$4,302,000 (2017: HK$3,640,000). The properties held at the reporting date have committed tenants for an average terms of two years with fixed rentals.

The Group as lessee:

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

	2018 *HK$'000*	2017 *HK$'000*
Within one year	2,474	2,121
In the second to fifth year inclusive	2,123	2,100
	4,597	4,221

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

40. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– set up cost of investment in subsidiaries	301,816	4,728
– prepaid lease payments	1,810	—
– buildings under construction	—	1,194
– leasehold improvements	1,201	1,726
– plant and machinery	802	1,007
– furniture, fixtures and office equipment	8	—
	305,637	8,655

41. RELATED PARTY TRANSACTIONS

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

	An associate		A joint venture		A non-controlling shareholder of a subsidiary	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Trade sales	58,858	50,666	230	281	6,007	134
Trade purchases	1,919	3,900	—	—	—	—

Sales of goods to the associate, joint venture and non-controlling shareholder of a subsidiary were made at the Group's usual list prices.

Other than the above, the details of loan to, trade debtors from and trade creditor to the associate, joint venture and non-controlling shareholder of a subsidiary are shown in notes 22, 26 and 29 respectively. No guarantees have been given to or received from the associate, joint venture and non-controlling shareholder of a subsidiary.

41. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

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

	2018 *HK$'000*	2017 *HK$'000*
Short-term benefits	**10,437**	9,636
Post-employment benefits	**589**	492
Termination benefits	**—**	931
	11,026	11,059

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

42. DISPOSAL OF A SUBSIDIARY

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

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

Consideration received:

	HK$'000
Cash consideration	51,838

42. DISPOSAL OF A SUBSIDIARY (continued)

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

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

Gain on disposal of a subsidiary:

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

Net cash inflow on disposal of a subsidiary:

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

43. PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries at 31st December, 2018 and 31st December, 2017 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company				Principal activities
			2018		2017		
			Directly	Indirectly	Directly	Indirectly	
Allied Power Inc.	British Virgin Islands	Canadian Dollars 50,000	100%	–	100%	–	Investment holding
Apex City Industrial Limited	Hong Kong	HK$100	–	100%	–	100%	Trading in prescription frames and sunglasses
Argent Optical Manufactory Limited	Hong Kong/PRC	HK$100,000	–	100%	–	100%	Manufacture of prescription frames and sunglasses
Arts Optical Company Limited	Hong Kong	HK$1,000,000	–	100%	–	100%	Trading in prescription frames and sunglasses
Arts Studio Limited	Hong Kong	HK$100	–	100%	–	100%	Trading in prescription frames and sunglasses
Sin Dak Industrial Limited	Hong Kong	HK$40,000	–	100%	–	100%	Property holding
Stepper Eyewear Limited	Hong Kong	HK$100	–	80%	–	80%	Trading in prescription frames and sunglasses
Stepper France	France	€50,000	–	66.4%	–	66.4%	Trading in prescription frames and sunglasses
Stepper South Africa (Proprietary) Limited	South Africa	South African Rand 500,000	–	80%	–	80%	Trading in prescription frames and sunglasses
Stepper UK	United Kingdom	£5,000	–	72%	–	72%	Trading in prescription frames and sunglasses
雅視光學發展(深圳)有限公司 Arts Optical Development (Shenzhen) Company Limited	PRC	HK$70,000,000	–	100% *(Note)*	–	100% *(Note)*	Manufacture of prescription frames and sunglasses
宏懋金屬製品(深圳)有限公司 (known as "Hongmao Metal Products (Shenzhen) Company Limited")	PRC	HK$61,000,000	–	100% *(Note)*	–	100% *(Note)*	Property holding
滙駿光學城(河源)有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK$150,000,000	–	100% *(Note)*	–	100% *(Note)*	Manufacture of prescription frames and sunglasses
上海司溥光學有限公司 Shanghai Stepper Eyewear Company Limited	PRC	RMB6,600,000	–	48%	–	48%	Trading in prescription frames and sunglasses

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

43. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

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

None of the subsidiaries had any debt securities at 31st December, 2018 or at any time during the year.

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

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Remarks:

(1) For illustrative purposes, it is assumed that the Group has only one subsidiary with non-controlling interests that are material to the Group.

(2) The amounts disclosed below do not reflect the elimination of intragroup transactions.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31.12.2018	31.12.2017	31.12.2018 *HK$'000*	31.12.2017 *HK$'000*	31.12.2018 *HK$'000*	31.12.2017 *HK$'000*
Stepper Eyewear Limited	Hong Kong	20%	20%	3,708	5,602	28,785	23,150
Individually immaterial subsidiaries with non-controlling interests				—	—	(918)	(918)
				3,708	5,602	27,867	22,232

43. PRINCIPAL SUBSIDIARIES (continued)

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Stepper Eyewear Limited and its subsidiaries

	31.12.2018 ***HK$'000***	31.12.2017 *HK$'000*
Current assets	**126,137**	103,902
Non-current assets	**20,647**	22,529
Current liabilities	**37,609**	34,799
Non-current liabilities	**66**	—
Equity attributable to owners of the Company	**85,245**	72,527
Non-controlling interests of Stepper Eyewear Limited	**19,672**	16,738
Non-controlling interests of Stepper Eyewear Limited's subsidiaries	**4,192**	2,367

43. PRINCIPAL SUBSIDIARIES (continued)

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests (continued)

Stepper Eyewear Limited and its subsidiaries (continued)

	Year ended 31.12.2018 *HK$'000*	Year ended 31.12.2017 *HK$'000*
Revenue	240,199	234,504
Expenses	222,279	212,331
Profit for the year	17,920	22,173
Profit attributable to owners of the Company	14,730	17,095
Profit attributable to the non-controlling interests of Stepper Eyewear Limited	3,682	4,274
(Loss) profit attributable to the non-controlling interests of Stepper Eyewear Limited's subsidiaries	(492)	804
Profit for the year	17,920	22,173
Other comprehensive (expense) income attributable to owners of the Company	(2,208)	2,939
Other comprehensive (expense) income attributable to the non-controlling interests of Stepper Eyewear Limited	(552)	735
Other comprehensive (expense) income attributable to the non-controlling interests of Stepper Eyewear Limited's subsidiaries	(357)	270
Other comprehensive (expense) income for the year	(3,117)	3,944

43. PRINCIPAL SUBSIDIARIES (continued)

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests (continued)

Stepper Eyewear Limited and its subsidiaries (continued)

	Year ended 31.12.2018 *HK$'000*	Year ended 31.12.2017 *HK$'000*
Total comprehensive income attributable to owners of the Company	12,522	20,034
Total comprehensive income attributable to the non-controlling interests of Stepper Eyewear Limited	3,130	5,009
Total comprehensive (expense) income attributable to the non-controlling interests of Stepper Eyewear Limited's subsidiaries	(849)	1,074
Total comprehensive income for the year	14,803	26,117

	Year ended 31.12.2018 *HK$'000*	Year ended 31.12.2017 *HK$'000*
Net cash inflow from operating activities	16,177	19,114
Net cash inflow (outflow) from investing activities	1,272	(1,019)
Net cash outflow from financing activities	(12,875)	(1,470)
Net cash inflow	4,574	16,625

44. FINANCIAL POSITION OF THE COMPANY

	2018 *HK$'000*	2017 *HK$'000*
Non-current Assets		
Investment in a subsidiary	**139,040**	139,040
Amount due from a subsidiary	**129,253**	124,086
	268,293	263,126
Current Assets		
Deposits and prepayments	**284**	205
Bank balances	**116**	483
	400	688
Current Liabilities		
Accrued charges	**1,323**	1,336
Dividend payable	**58**	56
	1,381	1,392
Net Current Liabilities	**(981)**	(704)
Total Assets less Current Liabilities	**267,312**	262,422
Capital and Reserves		
Share capital	**38,626**	38,365
Reserves *(Note)*	**228,686**	224,057
	267,312	262,422

44. FINANCIAL POSITION OF THE COMPANY (continued)

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

	Share premium *HK$'000*	Contributed surplus *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*
THE COMPANY				
At 1st January, 2017	113,950	105,369	5,381	224,700
Profit for the year	—	—	102,943	102,943
Dividends paid *(note 14)*	—	—	(103,586)	(103,586)
At 31st December, 2017	113,950	105,369	4,738	224,057
Profit for the year	—	—	19,056	19,056
Dividends paid *(note 14)*	—	—	(19,183)	(19,183)
Issue of shares	4,756	—	—	4,756
At 31st December, 2018	118,706	105,369	4,611	228,686

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

45. EVENTS AFTER THE REPORTING PERIOD

On 27th March, 2019, the Group entered into a share purchase agreement with an existing shareholder of the Group's associate ("Vendor"), pursuant to which Vendor agreed to sell and the Group agreed to purchase 7.5% of the issued share capital of the associate for a consideration of €787,500 (equivalent to approximately HK$6,980,000). The transaction is expected to complete around 10th April, 2019.

At the same date, the Group entered into an option agreement with an independent third party ("Buyer"), pursuant to which Buyer and the Group granted each other reciprocal call and put options on 12.5% of the issued share capital of the Group's associate, the exercise price of the option is ranging from €1,000,000 (equivalent to approximately HK$8,863,000) to €1,562,500 (equivalent to approximately HK$13,848,000). Buyer is entitled to exercise the call option during the period from 1st October, 2020 to 31st March, 2021 or the period from 1st October, 2021 to 31st March, 2022. The Group is entitled to exercise the put option during the period from 1st April, 2022 to 31st May, 2022.

The Group is in the process of assessing the financial impact and hence it is not feasible to quantify the financial impacts and the disclosure thereof to the consolidated financial statements.

RESULTS

	Year ended 31st December,				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
REVENUE	1,593,255	1,382,427	1,255,126	1,028,188	**1,196,013**
(LOSS) PROFIT BEFORE TAX	(94,122)	(36,001)	844,030	(657,539)	**(25,031)**
INCOME TAX EXPENSE	(4,939)	(7,296)	(3,612)	(11,408)	**(9,555)**
(LOSS) PROFIT FOR THE YEAR	(99,061)	(43,297)	840,418	(668,947)	**(34,586)**
(LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	(100,927)	(48,873)	835,754	(674,549)	**(38,294)**
NON-CONTROLLING INTERESTS	1,866	5,576	4,664	5,602	**3,708**
	(99,061)	(43,297)	840,418	(668,947)	**(34,586)**

ASSETS AND LIABILITIES

	At 31st December,				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
TOTAL ASSETS	2,329,889	2,081,310	2,493,737	1,659,411	**1,542,744**
TOTAL LIABILITIES	(1,120,782)	(1,002,170)	(657,145)	(492,592)	**(469,462)**
	1,209,107	1,079,140	1,836,592	1,166,819	**1,073,282**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	1,200,545	1,061,910	1,820,075	1,144,587	**1,045,415**
NON-CONTROLLING INTERESTS	8,562	17,230	16,517	22,232	**27,867**
	1,209,107	1,079,140	1,836,592	1,166,819	**1,073,282**

The Group applied several new and amendments to Hong Kong Financial Reporting Standards for the first time in the current year, including HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from contracts with customers" retrospectively in accordance with transition provision with the cumulative effect of initially applying these standards recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information for the years ended 2014 – 2017 have not been restated.

Properties Held for Investment

LIST OF INVESTMENT PROPERTIES

Location	Type of properties	Lease term
32nd Whole Floor King Palace Plaza No. 55 King Yip Street, Kwun Tong Kowloon, Hong Kong	Office premises	Medium-term lease
Car parking spaces no. P35 to P43 on 2nd Floor King Palace Plaza No. 55 King Yip Street, Kwun Tong Kowloon, Hong Kong	Car park	Medium-term lease