



World Houseware (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code: 713

2018

Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lee Tat Hing *(Chairman)*
Ms. Fung Mei Po *(Vice Chairperson and
Chief Executive Officer)*
Mr. Lee Chun Sing *(Vice Chairman)*
Mr. Lee Pak Tung
Mr. Lee Kwok Sing Stanley

Non-executive Director

Mr. Cheung Tze Man Edward

Independent Non-executive Directors

Mr. Tsui Chi Him Steve
Mr. Ho Tak Kay
Mr. Hui Chi Kuen Thomas
Mr. Shang Sze Ming

QUALIFIED ACCOUNTANT

Mr. Leung Cho Wai, FCCA, CPA

COMPANY SECRETARY

Mr. Tsui Chi Yuen, CPA

PRINCIPAL OFFICE

Flat C, 18th Floor
Bold Win Industrial Building
16-18 Wah Sing Street
Kwai Chung
New Territories
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

PRINCIPAL BANKERS

Standard Chartered Bank
HSBC
Bank of China
Hang Seng Bank
DBS Hong Kong

AUDITOR

Deloitte Touche Tohmatsu

SHARE REGISTRARS AND TRANSFER OFFICES

In Hong Kong

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

In the Cayman Islands

The R&H Trust Co. Ltd.
P.O. Box 897
Windward 1
Regatta Office Park
Grand Cayman KY1-1103
Cayman Islands

STOCK CODE

713

COMPANY'S WEBSITE

<http://www.worldhse.com>

Summary of Notice of Annual General Meeting

Set out below is a summary of the notice of annual general meeting, the full version of which is set out in the circular to shareholders dispatched at 29 April 2019.

An Annual General Meeting of World Houseware (Holdings) Limited (the “Company”) will be held at The Jade Room, 6th Floor, The Marco Polo Hongkong Hotel, Harbour City, Kowloon, Hong Kong at 2:30 p.m. on Tuesday, 18 June 2019 for the following purposes:

1. To receive and adopt the audited Financial Statements of the Company and its subsidiaries and the Reports of the Directors and Auditors for the year ended 31 December 2018.
2. To re-elect Directors and to authorise the Board to fix the Directors’ remuneration.
3. To re-appoint Auditors and authorise the Board to fix their remuneration.
4.
 - A. To grant a general mandate to the Directors to allot shares.
 - B. To grant a general mandate to the Directors to repurchase the Company’s own shares.
 - C. To add the nominal amount of the shares repurchased under resolution 4B to the mandate granted to the Directors under resolution 4A.

Chairman's Statement

BUSINESS REVIEW

For the year ended 31 December 2018, the Group recorded a consolidated turnover of HK\$926,232,000, representing an increase of 1.3% from HK\$914,020,000 last year. Gross profit and gross profit margin were HK\$124,926,000 and 13.5% respectively. The developer of the redevelopment of The Shenzhen Pingshan Urban Renewal Project (the "Redevelopment Project") has been duly approved as the executing entity by PRC Government. The progress was satisfactory and a gain on disposal of land and building of HK\$1,611,880,000 had been recorded. The gain after tax was HK\$1,371,859,000 which was derived after deducting the related taxation effect of HK\$240,021,000. After deducting tax and other expenses of the Group, the profit for the year of the Group was HK\$1,166,877,000.

During the year of 2018, the Group continued its business of household products, PVC pipes and fittings manufacturing, feed production from food waste recycling business and property investments.

For the household products business, the business turnover increased by 0.3% and it generated profits for the Group.

For the PVC pipes and fittings manufacturing business, because of uncertainty in international trade and rise in oil prices, the gross profit decreased. The business turnover was HK\$711,321,000 representing an increase of 1.7% from last year but the business continued to contribute profits to the Group.

For the feed production from food waste recycling business, the turnover was HK\$6,496,000 representing a decrease of 16.3% from HK\$7,763,000 of last year. The business was not satisfactory.

During the year under review, the turnover from property investments amounted to HK\$4,457,000, representing an increase of 14.9% from HK\$3,878,000 of last year. Gains arising from changes in fair value of investment properties was HK\$1,480,000.

PROSPECT

Looking to the future, the group will continue to strive for the development of household products, PVC pipes and fittings manufacturing and feed production from food waste recycling business so as to generate better results for the Group.

For the Redevelopment Project, it has satisfactorily commenced and the returns had been recorded to the account. The relevant properties will be allotted to the Group by the Developer when the Redevelopment Project is completed. The Group will conduct research and seek advice from professionals to come up with the best strategy to provide the maximum return to the Group.

Management Discussion and Analysis

RESULTS

- The Group recorded a turnover of HK\$926,232,000 for the year ended 31 December 2018, representing an increase of 1.3% as compared to the same period last year.
- Gross profit and gross profit margin of the Group recorded were HK\$124,926,000 and 13.5%, representing a decrease of HK\$27,061,000 and a decrease of 3.1% respectively as compared to the same period last year.
- Profit for the year was HK\$1,166,877,000, as compared to a loss of HK\$113,566,000 for the same period last year.
- Basic earnings per share was 152.75 HK cents, as compared to loss per share of 15.00 HK cents for the same period last year.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group finances its operations from internally generated cash flows, term loans and trade finance facilities provided by banks in Hong Kong and the PRC. At 31 December 2018, the Group had bank balances and cash and pledged bank deposits of approximately HK\$44,572,000 (31.12.2017: HK\$77,967,000) and had interest-bearing secured bank borrowings of approximately HK\$235,301,000 (31.12.2017: HK\$255,805,000). The Group's interest-bearing secured bank borrowings was mainly computed at Hong Kong Inter-Bank Offering Rate plus a margin. The Group's total banking facilities available as at 31 December 2018 amounted to HK\$541,235,000; of which HK\$235,301,000 of the banking facilities was utilised (utilisation rate was at 43.5%).

The Group continued to conduct its business transactions principally in Hong Kong dollars ("HK\$"), US dollars and Renminbi ("RMB"). The Group's exposure to the foreign exchange fluctuations has not experienced any material difficulties in the operations or liquidity as a result of fluctuations in currency exchange.

At 31 December 2018, the Group had current assets of approximately HK\$608,021,000 (31.12.2017: HK\$657,761,000). The Group's current ratio was approximately 1.11 as at 31 December 2018 as compared with approximately 1.18 as at 31 December 2017. Total shareholders' funds of the Group as at 31 December 2018 increased by 157.2% to HK\$1,803,303,000 (31.12.2017: HK\$701,173,000). The gearing ratio (measured as total liabilities/total shareholders' funds) of the Group as at 31 December 2018 was 0.53 (31.12.2017: 1.00).

Management Discussion and Analysis

CHARGES ON ASSETS

Certain leasehold land and buildings, investment properties, prepaid lease payments and pledged bank deposits with an aggregate net book value of HK\$174,959,000 (31.12.2017: HK\$207,599,000) were pledged to banks for general banking facilities granted to the Group.

In addition, the Group also pledged the life insurance to a bank to secure general banking facilities granted to the Group.

STAFF AND EMPLOYMENT

At 31 December 2018, the Group employed a total workforce of about 950 staff (31.12.2017: 1,137) including 905 staff (31.12.2017: 1,076) in our factories located in the PRC. The total staff remuneration incurred during the period was HK\$90,804,000 (31.12.2017: HK\$100,283,000). It is the Group's policy to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industries. It is the Group's policy to encourage its subsidiaries to send the management and staff to attend training classes or seminars that related to the Group's business. Tailor made internal training programmes were also provided to staff in our PRC factories.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

LEE Tat Hing, aged 81, is the Chairman of the Group. Mr. Lee has over 40 years' experience in the trading and manufacture of household products and is responsible for the strategic planning and business development of the Group.

FUNG Mei Po, aged 63, is the wife of Mr. Lee Tat Hing and the Vice Chairperson and Chief Executive Officer of the Group. She has over 30 years' experience in marketing, production planning and factory management and has been with the Group for over 30 years. Ms. Fung is in charge of sales of the Group's North American markets and the Group's Hong Kong operations and administration.

LEE Chun Sing, aged 58, is the son of Mr. Lee Tat Hing and the Vice Chairman of the Group. He is responsible for the planning and production management of the Group's PRC operations and has been with the Group since 1985.

LEE Pak Tung, aged 72, joined the Group in 1976. He has over 30 years' experience in trading and is responsible for the Group's sales to the Asia and Latin American markets.

LEE Kwok Sing Stanley, aged 56, is the son of Mr. Lee Tat Hing. He is responsible for the administration, management and production of the production plant in Zhongshan, the PRC and he is the project manager of the operation of a business for recycling and reprocessing of food waste in EcoPark, Hong Kong. He joined the Group in 1989 and has over 20 years' experience in factory management.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

CHEUNG Tze Man Edward, aged 66, is a practising solicitor in Hong Kong. He obtained his Bachelor of Laws degree from the University of London and Master of Laws in Chinese Law from University of Hong Kong and is a member of the Law Society in Hong Kong and in England and Wales. He is also a member of the Institute of Chartered Secretaries and Administrators.

INDEPENDENT NON-EXECUTIVE DIRECTORS

TSUI Chi Him Steve, aged 63, had engaged in managerial positions in major British and Chinese banks in Hong Kong in the past with more than 20 years' experience in credit, credit audit and credit risk management, involving many medium size and some large corporations listed in China or in Hong Kong. Mr. Tsui joined the Group in 2007.

HO Tak Kay, aged 62, is a fellow member of the Association of Chartered Certified Accountants as well as the Hong Kong Institute of Certified Public Accountants. He had worked in certain international accounting firms before and has over 30 years experience in audit, accounting and financial fields. Mr. Ho joined the Group in 2004.

HUI Chi Kuen Thomas, aged 62, is a professional accountant. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in Australia and CPA Australia. He has over 20 years' experience in accounting, taxation and financial management gained in certain multinational corporations and publicly listed companies in Hong Kong and Australia. Mr. Hui joined the Group in 2004.

SHANG Sze Ming, aged 59, graduated from The Ohio State University of The United States of America with a bachelor's degree of Science in Business Administration and obtained his Master's degree of Business Administration in Finance and Master's degree of Science in Financial Services – Investment from Golden Gate University of The United States of America. He has extensive experience in investment and management for over eighteen years. He was appointed as Senior Investment Analyst in two securities companies and as Investor Relations Manager in a large listed company. Mr. Shang joined the Group in 2012.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

LEUNG Cho Wai, aged 52, is the Financial Controller and Qualified Accountant of the Group. He joined the Group in 2007. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institution of Certified Public Accountants. He has gained extensive experience in auditing, accounting, taxation and financial management by working in certified public accountants firm and publicly listed companies in Hong Kong. He is responsible for the overall financial management and planning of the Group.

TSUI Chi Yuen, aged 54, is the secretary of the Company and joined the Group in 2007. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tsui has over 25 years of experience in auditing, accounting and financial management.

LEE Fung Mei Belinda, aged 53, is the daughter of Mr. Lee Tat Hing and senior sales manager of the Group. Ms. Lee graduated from York University in Canada with a Bachelor's degree in Economics. Ms. Lee assists Ms. Fung Mei Po in the marketing of the Group's products in the United States of America and Canada and she has been with the Group since 1989.

LEE Hon Sing Alan, aged 55, is the son of Mr. Lee Tat Hing. Mr. Lee is responsible for the administration, management and production of one of the major production plant in Shenzhen, the PRC. He joined the Group in 1989 and has over 18 years' experience in factory management.

CHEN Hsin Hsiung, aged 76, is the engineering and production manager of the printing roller division. Before joining the Group in 1992, Mr. Chen had over 30 years' experience in PVC printing roller technology.

WANG Wen Bi, aged 53, graduated from the Taiwan Culture University. He is the engineering and technology manager of PVC pipes and fittings segment. He joined the Group in 1995 and has over 14 years' experience in technological management, production and administration.

WONG Sung Kong, aged 59, is the chief artist and has been with the group since 1985. He holds a certificate in art and design from the Department of Extramural Studies of the Chinese University of Hong Kong. In 1985, he was invited by the Urban Council to participate in the Contemporary Hong Kong Art Biennial Exhibition.

LAI Lai Wah, aged 61, is the wife of Mr. Lee Chun Sing and the general manager of the PRC factory. Madam Lai has been with the Group over 20 years, and has over 15 years' experience in factory management.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the “Board”) of World Houseware (Holdings) Limited (the “Company”) believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The Board regularly reviews the Company’s corporate governance guidelines and developments. The Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the “Code”) of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the “Model Code”). Having made specific enquiry of all the directors, all the directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

BOARD OF DIRECTORS

The Board of the Company currently comprises:

Executive Directors:

Lee Tat Hing *(Chairman)*
Fung Mei Po *(Vice Chairperson and Chief Executive Officer)*
Lee Chun Sing *(Vice Chairman)*
Lee Pak Tung
Lee Kwok Sing Stanley

Non-executive Director:

Cheung Tze Man Edward

Independent Non-executive Directors:

Tsui Chi Him Steve
Ho Tak Kay
Hui Chi Kuen Thomas
Shang Sze Ming

One Non-executive Director and four Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of legal, accounting and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

Corporate Governance Report

BOARD OF DIRECTORS – *continued*

Ms. Fung Mei Po, the Vice Chairperson and Chief Executive Officer, is the wife of Mr. Lee Tat Hing, the Chairman whereas Mr. Lee Chun Sing, the Vice Chairman and Mr. Lee Kwok Sing Stanley, an executive director are the sons of Mr. Lee Tat Hing, the Chairman.

During the year, four full board meetings were held and the attendance of each director is set out as follows:

Name of directors	Number of board meetings attended in 2018	Attendance rate
Lee Tat Hing	4/4	100%
Fung Mei Po	4/4	100%
Lee Chun Sing	4/4	100%
Lee Pak Tung	4/4	100%
Chan Lai Kuen Anita (resigned on 21 Jun 2018)	1/1	100%
Lee Kwok Sing Stanley	4/4	100%
Kwong Bau To (resigned on 23 Jun 2018)	1/1	100%
Cheung Tze Man Edward	4/4	100%
Tsui Chi Him Steve	4/4	100%
Ho Tak Kay	4/4	100%
Hui Chi Kuen Thomas	4/4	100%
Shang Sze Ming	4/4	100%

The Board formulates overall strategy of the Company, monitors its financial performance and maintains effective oversight over the management. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Company's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The regular Board meeting schedule for any year is planned in the preceding year. At least 14 days notice of all board meetings is given to all directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all directors at least 3 days before the date of every board meeting so that the directors have the time to review the documents. Minutes of every board meeting are circulated to all directors for their perusal prior to confirmation of the minutes at the following board meeting.

Corporate Governance Report

BOARD OF DIRECTORS – *continued*

Every board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

The Board has a defined schedule of matters reserved for the Board decision in various major categories and events.

When the Board considers any material proposal or transaction in which a substantial shareholder or a Director has a conflict of interest, a board meeting is held and Independent Non-executive Directors who have no material interest in the transaction present at such board meeting. At the meeting, the Director who has interests declares his interest and is required to abstain from voting.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Board reviews the extent of this insurance annually.

Composition of the Board, by category of Directors, including names of Chairman, Executive Directors, Independent Non-executive Directors and Non-executive Director is disclosed in all corporate communications.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and the Chief Executive Officer of the Company are Mr. Lee Tat Hing and Ms. Fung Mei Po respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Company in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has fixed a term of 3 years' appointment for Non-executive Director and subject to re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

All directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years.

DIRECTORS' TRAINING

According to Code provision A6.5 of the Corporate Governance Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises the Chairman, one Executive Director, one Non-executive Director and four Independent Non-executive Directors.

The Remuneration Committee was formed in September 2005 and meetings shall be held at least once a year. Two meetings were held in 2018. The attendance of each member is set out as follows:

Name of members	Number of meetings attended in 2018	Attendance rate
Tsui Chi Him Steve (<i>Chairman of remuneration committee</i>)	2/2	100%
Lee Tat Hing	2/2	100%
Lee Chun Sing	2/2	100%
Cheung Tze Man Edward	2/2	100%
Ho Tak Kay	2/2	100%
Hui Chi Kuen Thomas	2/2	100%
Shang Sze Ming	2/2	100%

The emoluments payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 11 (i) to the financial statements.

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

1. To review annually and recommend to the Board the overall remuneration policy for the directors, the Chief Executive Officer and key senior management officers.
2. To review annually the performance of the Executive Directors, the Chief Executive Officer and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments.
3. To ensure that the level of remuneration for Non-executive Director and Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board of Company.
4. To review and approve the compensation payable to Executive Directors, the Chief Executive Officer and key senior management officers in connection with any loss or termination of their office or appointment.
5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct.
6. To ensure that no director is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee are available from the Company Secretary on request.

Corporate Governance Report

NOMINATION COMMITTEE

The Nomination Committee of the Company comprises the Chairman, two Executive Directors and four independent Non-executive Directors. The Nomination Committee was formed in September 2007 and meetings shall be held at least once a year. One meeting was held in 2018. The attendance of each member is set out as follows:

Name of members	Number of meetings attended in 2018	Attendance rate
Lee Tat Hing (<i>Chairman of nomination committee</i>)	1/1	100%
Fung Mei Po	1/1	100%
Lee Chun Sing	1/1	100%
Tsui Chi Him Steve	1/1	100%
Ho Tak Kay	1/1	100%
Hui Chi Kuen Thomas	1/1	100%
Shang Sze Ming	1/1	100%

The Nomination Committee which has written term of reference, is responsible for making recommendations to the Board on all board appointments and re-appointments. The Nomination Committee responsibilities are as follows:

- a. to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- b. to identify suitable individuals qualified to become Board members and make recommendations to the Board on suitable candidates to be nominated for directorships;
- c. to establish a mechanism for formal assessment and to perform periodic assessment on the effectiveness of the Board;
- d. to assess the independence of independent non-executive directors on its appointment or when their independence is called into question;
- e. to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The terms of reference of the Nomination Committee are available from the Company Secretary on request.

The Board recognise the importance and benefit of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of a number of factors, including but not limited to gender, age, cultural and educational background and professional experience.

Corporate Governance Report

NOMINATION COMMITTEE – *continued*

With the existing Board members coming from a variety of business and professional background and two out of the twelve Board members being woman, the Company considers that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the company's business.

ACCOUNTABILITY AND AUDIT

The directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2018, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

AUDIT COMMITTEE

The Audit Committee of the Company comprises one Non-executive Director and four Independent Non-executive Directors.

The Audit Committee shall meet at least two times a year. Two meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of members	Number of meetings attended in 2018	Attendance rate
Tsui Chi Him Steve (<i>Chairman of audit committee</i>)	2/2	100%
Cheung Tze Man Edward	2/2	100%
Hui Chi Kuen Thomas	2/2	100%
Ho Tak Kay	2/2	100%
Shang Sze Ming	2/2	100%

During the meetings held in 2018 the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2017 and for the six months ended 30 June 2018;
- (ii) reviewed the effectiveness of internal control system;
- (iii) discussed with the external auditors the audit fee in respect of the financial statements for the year ended 31 December 2017.

Corporate Governance Report

AUDIT COMMITTEE – *continued*

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

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Company.
2. To discuss with the external auditors the nature and scope of the audit.
3. To review the interim and annual financial statements before submission to the Board.
4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.

The terms of reference of the Audit Committee are available from the Company Secretary on request.

AUDITORS' REMUNERATION

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

Services rendered	Fees paid/payable HK\$'000
Audit services	2,880
Review on interim financial statements	570
Non-audit services – taxation and other services	797
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	4,247
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Corporate Governance Report

RISK COMMITTEE

The Risk Committee of the Company comprises the Chairman, two Executive Directors, a Non-executive Director, four independent Non-executive Directors and the Financial Controller. The Risk Committee was formed in 1 April 2016. One meeting was held in 2018. The attendance of each member is set out as follows:

Name of members	Number of meetings attended in 2018	Attendance rate
Tsui Chi Him Steve (<i>Chairman of risk committee</i>)	1/1	100%
Lee Tat Hing	1/1	100%
Fung Mei Po	1/1	100%
Lee Chun Sing	1/1	100%
Chan Lai Kuen Anita (<i>resigned on 21 Jun 2018</i>)	–	–
Cheung Tze Man Edward	1/1	100%
Ho Tak Kay	1/1	100%
Hui Chi Kuen Thomas	1/1	100%
Shang Sze Ming	1/1	100%
Leung Cho Wai	1/1	100%

The Risk Committee is responsible for monitoring the Group's business, assess the Group's ability to respond to changes in its business and external environment; deciding the Group's risk level and risk appetite; and to consider solutions and provide appropriate guidance. Oversee the Group's risk management and internal control systems, review the effectiveness of the systems including the financial control system, operation control system and compliance control system.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Responsibility of the Board

The Board is committed to the maintenance of good corporate governance practices and procedures, and implements an effective risk management and internal control systems of the Group. However, such systems are designed to manage rather than eliminate risk of failure to achieve business objective, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance Report

OUR RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

Risk Management and Risk Assessment

The Board has the overall responsibilities of the risk management and internal controls systems of the Group. With the support from the Risk Committee, the Board monitors the Group's risk exposures, oversees the actions of management and monitors the overall effectiveness of the risk management system on an ongoing basis.

Management is responsible for setting the appropriate tone from the top, performing risk assessments, and owning the design, implementation and maintenance of internal controls. Essential to the Group's risk management and internal control systems are policies and procedures that are documented and communicated to employees.

To provide sound and effective risk management, the Group has established a risk management system which includes the following key features:

- An organisational structure for different responsible parties with defined authority, responsibilities and risk management roles;
- The Board sets forth the proper risk management culture and risk appetite for the Group, evaluates and determines the level of risk that the Group should take and monitor regularly;
- A Risk Management Policy has been established to provide a framework, which includes a risk assessment process, for the identification, analysis, evaluation, treatment, monitoring and reporting of the Group's key risks to support the achievement of the organisation's overall strategic objectives.

Risk assessment has been performed by management to evaluate the nature and extent of the risks to which the Group is willing to take in achieving its strategic objectives. During the risk assessment process, the Group has identified a number of key risks that may impact the Group's strategic objectives and to respond to the changes in the business and external environment. These risks are prioritised according to the likelihood of their occurrence and the significance of their impact on the business of the Group. Remedial measures are developed to manage these risks to an acceptable level. The results of risk assessment is reported to and discussed with the Board.

Corporate Governance Report

INTERNAL CONTROL

The Company maintains a comprehensive and effective internal control system. The Company's internal control cover a number of procedures and policies which covers all material controls, including financial, operational, compliance controls and risk management functions.

The management of the Company had reviewed the Company's internal control system for the year ended 31 December 2018 and had submitted the results of the review and its recommendations and opinions for consideration by the Audit Committee and the Board.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Through the Risk Committee, the Board has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group and considered the risk management and internal control systems effective and adequate. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. The scope and quality of ongoing monitoring of risk management and the internal control systems have been assessed. No significant areas of concern that may affect the Group to achieve strategic goals have been identified.

The Board has also reviewed and is satisfied with the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions, and their training programmes and budget.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairmen of the Audit, Remuneration and Nomination Committees together with the external auditors are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the annual general meeting and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published in our investor relations website.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Company. The Company has announced its annual and interim results in a timely manner as laid down in the Listing Rules after the end of the relevant periods in 2018.

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

Reference made to the Environmental, Social and Governance Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by the Stock Exchange.

ENVIRONMENTAL PROTECTION

The Group practice environmental and sustainable development concept, the companies are actively taking measures to protect the environment in their operations.

The Group actively fulfills social responsibility, adhere to both of the concept development and environmental protection, rational resource utilisation and practises of environmental protection in actual actions. One of the businesses of the Group is engaged in food waste recycling business, food waste is sufficiently used for recycling and turns into feed for livestock farming and aquaculture, effective recycling for more efficient use of resources. The teams manage programs to cut down hazardous and non-hazardous waste. Simultaneously, proper treatment of industrial waste water and hazardous waste has been put into practice.

The Group practice paper saving initiatives, such as reminder for staff to have environmentally friendly photocopying habit, suggest double-sided printing and copying, and encourage staff to save water in their daily lives.

A1: Emissions KPIs Greenhouse gas, the head office of the company performance on sustainable development in terms of greenhouse gas emissions is summarised as follows:

		For the year ended 31 December	
		2018	2017
Water	Consumption quantity	337 m³	372 m ³
	Intensity (based on head office surface area)	0.34 m³/m²	0.37 m ³ /m ²
Electricity	Consumption quantity	104,558 KWh	109,961 KWh
	Intensity (based on head office surface area)	105.28 KWh/m²	110.73 KWh/m ²
Paper	Consumption quantity	1,550 kgs	1,825 kgs
	Intensity (based on head office surface area)	1.56 kgs/m²	1.84 kgs/m ²

The company actively enhance employees' awareness of energy saving and emission reduction for the purpose of reducing greenhouse gas emission.

Environmental, Social and Governance Report

A2: Use of Resources KPIs, the resources used in our factory are summarised as follows:

KPI		For the year ended 31 December	
		2018	2017
A2.1 Water	Consumption quantity	313,651 m³	449,610 m ³
	Intensity (based on the sales quantity)	5.79 m³/tons	7.33 m ³ /tons
A2.2 Electricity	Consumption quantity	37,824,840 KWh	37,542,882 KWh
	Intensity (based on the sales quantity)	698 KWh/tons	612 KWh/tons
A2.5 Paper	Consumption quantity	141,700 kgs	120,575 kgs
	Intensity (based on the sales quantity)	2.61 kgs/tons	1.97 kgs/tons

The consumption of water, electricity and paper in the company varies, depending on the types of products, nature of fabrics, production processes as well as weather and temperature.

LABOUR STANDARDS

No child or forced labour in the Group's operations in the reporting period, it is in compliance with the Employment Ordinance, Chapter 57 of the Laws of Hong Kong in terms of employment management. The Group's in China factory recruitment and utilisation standards are implemented in strict compliance with the relevant labour laws of the PRC. The Group will regularly review the recruitment measures; ensure full compliance with the Employment Ordinance and Labour Law of the PRC.

Talented person are our most important asset for development business, we will attract professional person and retaining talent to match up the Group's environmental protection business to rapid development for the business sustainable growth.

The recruitment process is strictly abided by the guidelines of the Group's Human Resource Department. Every job applicant is required to fill in their information in a recruitment questionnaire, which is checked by Human resource Department to ensure information's accuracy. This also allows the Group to hire suitable candidate in accordance with the job requirements and candidates' expectations.

EQUAL OPPORTUNITY

Equal opportunities are given to employees in respect of recruitment, job advancement, training, compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, sexual orientation, age, ethnic, skin color, religion, disability, pregnancy or any other discrimination.

Environmental, Social and Governance Report

EMPLOYEE HEALTH AND SAFETY

The Group has put the health and safety of the employees as the priority of productions, ensures that provided a safe and healthy working environment for employees, and every workers who operate factory plants are required to train for how to use the equipment and plant safely. Regularly encourage employees to discern the workplace which may affect the safe place, and to take precautions to mitigate the risks. Not result in work related fatality during the reporting period.

OPERATIONAL MANAGEMENT

The Group attaches great importance to product quality. The Group carries out long-term quality monitoring and regular reviews on all suppliers, assessment of qualified suppliers to made the “Qualified Supplier List” and only make purchases in the list. In case of a significant change in supplier qualification or serious quality issue, the Company stops the supplier delivery immediately, ensure the product quality.

ANTI-CORRUPTION

In strict compliance with national laws and regulations and its internal policies, the Group requires its employees abstaining from such misconducts as offering or accepting bribery and corruption in any circumstance.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 37.

The directors of the Company do not recommend the payment of a dividend for the year ended 31 December 2018.

INVESTMENT PROPERTIES

The investment properties held by the Group were revalued at 31 December 2018, resulting in a net increase in fair value of HK\$1,480,000, which has been credited directly to profit or loss.

Details of these and other movements of investment properties of the Group are set out in note 14 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure of approximately HK\$49,528,000 on additions to production and other facilities. Details of these and other movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2018 represent the aggregate of share premium, special reserve and accumulated losses which amounted to approximately HK\$260,664,000 (2017: HK\$333,286,000). Under the Companies Law in the Cayman Islands and the provisions of the Memorandum and Articles of Association of the Company, all reserves of the Company are available for distribution to shareholders, either by way of dividend or bonus issue of shares, provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid.

Directors' Report

DIRECTORS

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

Executive directors:

Lee Tat Hing	<i>(Chairman)</i>
Fung Mei Po	<i>(Vice Chairperson and Chief Executive Officer)</i>
Lee Chun Sing	<i>(Vice Chairman)</i>
Lee Pak Tung	
Lee Kwok Sing Stanley	
Chan Lai Kuen Anita	<i>(resigned on 21 Jun 2018)</i>
Kwong Bau To	<i>(resigned on 23 Jun 2018)</i>

Non-executive director:

Cheung Tze Man Edward

Independent non-executive directors:

Tsui Chi Him Steve
Ho Tak Kay
Hui Chi Kuen Thomas
Shang Sze Ming

In accordance with Article 116 of the Company's Articles of Association, Mr. Lee Tat Hing, Mr. Ho Tak Kay, Mr. Hui Chi Kuen Thomas and Mr. Shang Sze Ming retire by rotation and, being eligible, offer themselves for re-election.

Each of the non-executive directors has entered into a service agreement with the Company for a term of three years from 6 September 2017 except Mr. Tsui Chi Him Steve and Mr. Shang Sze Ming who have entered into service agreements with the Company for a term of three years from 17 November 2016 and 1 November 2018 respectively and subject to re-election in accordance with the Company's Articles of Association.

Other than as disclosed above, no director 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).

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

At 31 December 2018, the interests of the directors, chief executive and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of directors	Number of issued ordinary shares held				Total	Percentage of the issued share capital of the Company
	Personal interests	Family interests	Corporate interests	Other interests		
Lee Tat Hing	14,256,072	58,121,087 (a)	28,712,551 (c)	280,895,630 (d)	381,985,340	49.98%
Fung Mei Po	58,121,087	42,968,623 (b)	-	280,895,630 (d)	381,985,340	49.98%
Lee Chun Sing	27,815,830	2,526,000 (e)	-	280,895,630 (d)	311,237,460	40.72%
Lee Kwok Sing Stanley	2,481,280	-	-	280,895,630 (d)	283,376,910	37.08%
Lee Pak Tung	4,466,448	-	-	-	4,466,448	0.58%
Hui Chi Kuen Thomas	1,300,000	-	-	-	1,300,000	0.17%
Tsui Chi Him Steve	1,200,000	-	-	-	1,200,000	0.16%
Cheung Tze Man Edward	2,000,000	-	-	-	2,000,000	0.26%

Notes:

- (a) Mr. Lee Tat Hing is the husband of Ms. Fung Mei Po whose personal interests are therefore also the family interests of Mr. Lee Tat Hing.
- (b) Ms. Fung Mei Po is the wife of Mr. Lee Tat Hing whose personal and corporate interests are therefore also the family interests of Ms. Fung Mei Po.
- (c) The shares are held by Lees International Investments Limited, a company wholly owned by Mr. Lee Tat Hing.
- (d) The shares are held by Goldhill Profits Limited which is wholly owned by the discretionary trust of which Mr. Lee Tat Hing, Ms. Fung Mei Po, Mr. Lee Chun Sing and Mr. Lee Kwok Sing Stanley are the discretionary objects.
- (e) The shares are held by Ms. Lai Lai Wah, the wife of Mr. Lee Chun Sing whose personal interests are also the family interests of Mr. Lee Chun Sing.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES – *continued*

At 31 December 2018, the following directors had personal interests in the deferred non-voting shares of certain subsidiaries of the Company:

Name of directors	Name of subsidiaries	Number of deferred non-voting shares held
Fung Mei Po	World Home Linen Manufacturing Company Limited	100
Lee Pak Tung	Hong Kong PVC Placemat Manufacturing Company Limited	25,000

The deferred shares do not carry any rights to vote at general meetings of these subsidiaries or to participate in any distributions of profits until the profits of these subsidiaries which are available for dividend exceed HK\$10 billion, or to receive a return of capital until a total sum of HK\$10 billion has been distributed to the ordinary shareholders of each of these subsidiaries.

At 31 December 2018, save as aforesaid and options holdings disclosed under the heading of “Share Options and Directors' Rights to Acquire Shares or Debentures” and other than certain nominee shares in subsidiaries held by directors in trust for the Group, none of the directors, chief executives or their associates had any interests or short positions in the shares or any securities of the Company and its associated corporations.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests in shares disclosed above in respect of the directors of the Company, the Company has not been notified of any other interests representing 5 percent or more of the Company's issued share capital as at 31 December 2018.

Directors' Report

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year:

	Date of grant	Exercise price HK\$ (Note 1)	Exercisable period	Outstanding as at 31.12.2017	Exercised during the year	Lapsed during the year	Outstanding as at 31.12.2018
Category 1: Directors							
Lee Tat Hing	01.09.2015	0.580	01.09.2015 to 31.08.2025	6,500,000	-	-	6,500,000
Lee Chun Sing	12.11.2012	0.309	12.11.2012 to 11.11.2022	6,500,000	-	-	6,500,000
	01.09.2015	0.580	01.09.2015 to 31.08.2025	3,000,000	-	-	3,000,000
Lee Kwok Sing Stanley	12.11.2012	0.309	12.11.2012 to 11.11.2022	4,500,000	-	-	4,500,000
	01.09.2015	0.580	01.09.2015 to 31.08.2025	3,000,000	-	-	3,000,000
Lee Pak Tung	12.11.2012	0.309	12.11.2012 to 11.11.2022	2,000,000	-	-	2,000,000
	01.09.2015	0.580	01.09.2015 to 31.08.2025	500,000	-	-	500,000
Chan Lai Kuen Anita	12.11.2012	0.309	12.11.2012 to 11.11.2022	1,000,000	(1,000,000)	-	-
	01.09.2015	0.580	01.09.2015 to 31.08.2025	100,000	-	(100,000)	-
Kwong Bau To	01.09.2015	0.580	01.09.2015 to 31.08.2025	1,500,000	-	(1,500,000)	-
Cheung Tze Man Edward	01.09.2015	0.580	01.09.2015 to 31.08.2025	500,000	-	-	500,000
Tsui Chi Him Steve	01.09.2015	0.580	01.09.2015 to 31.08.2025	300,000	-	-	300,000
Hui Chi Kuen Thomas	01.09.2015	0.580	01.09.2015 to 31.08.2025	300,000	-	-	300,000
Ho Tak Kay	24.10.2011	0.237	24.10.2011 to 23.10.2021	600,000	-	-	600,000
	12.11.2012	0.309	12.11.2012 to 11.11.2022	600,000	-	-	600,000
	01.09.2015	0.580	01.09.2015 to 31.08.2025	300,000	-	-	300,000
Shang Sze Ming	01.09.2015	0.580	01.09.2015 to 31.08.2025	300,000	-	-	300,000
Category 2: Employees							
	24.10.2011	0.237	24.10.2011 to 23.10.2021	2,000,000	-	-	2,000,000
	12.11.2012	0.309	12.11.2012 to 11.11.2022	6,000,000	-	-	6,000,000
	01.09.2015	0.580	01.09.2015 to 31.08.2025	9,100,000	-	-	9,100,000
				48,600,000	(1,000,000)	(1,600,000)	46,000,000

Note 1: These share options are exercisable, starting from the date of options granted for a period of 10 years.

Other than as disclosed above, 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.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There were no contracts of significance subsisting to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer of the Group by itself and together with the next four largest customers accounted for 9.1% and 25.7%, respectively, of the Group's turnover for the year.

The largest supplier of the Group by itself and together with the next four largest suppliers accounted for 27.4% and 61.4%, respectively, of the Group's purchases for the year.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owns more than 5% of the Company's issued share capital has a beneficial interest in the share capital of any of the above major customers and suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR OTHER SIMILAR RIGHTS

Other than the share options as disclosed above, the Company had no convertible securities, options, warrants or other similar rights in issue during the year or at 31 December 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company had adopted a share option scheme as an incentive to directors and eligible employees, details of which are set out in note 31 to the consolidated financial statements.

Directors' Report

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independency pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2018.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$401,000.

AUDITOR

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

On behalf of the Board

Lee Tat Hing

CHAIRMAN

Hong Kong

27 March 2019

Independent Auditor's Report

Deloitte.

德勤

TO THE SHAREHOLDERS OF WORLD HOUSEWARE (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of World Houseware (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 121, which comprise the consolidated statement of financial position as at 31 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 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Independent Auditor's Report

Key Audit Matters – continued

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of trade receivables

We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated statement of financial position and the involvement of subjective judgements and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period.

As at 31 December 2018, the Group's net trade receivables amounting to approximately HK\$350,931,000, which represented approximately 12.7% of total assets of the Group and out of these trade receivables of approximately HK\$93,992,000 were past due. As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments".

As disclosed in note 36 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, aging, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables that are credit-impaired or significant outstanding balances are assessed for ECL individually. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.

As disclosed in note 36 to the consolidated financial statements, the Group recognised an additional amount of HK\$17,375,000 of impairment of trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2018 amounted to approximately HK\$117,899,000.

Our procedures in relation to evaluating the impairment of assessment on trade receivables included:

- Understanding key controls on how the management estimates the loss allowance for trade receivables;
- Testing the integrity of information used by management to develop the provision matrix, including trade receivables aging analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the sales invoices and other supporting documents;
- Evaluating management's basis and judgement in determining credit loss allowance on trade receivables as at 1 January 2018 and 31 December 2018, including their identification of credit-impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix;
- Evaluating the disclosures regarding the impairment assessment of trade receivables in note 36 to the consolidated financial statements; and
- Testing subsequent settlements of credit-impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

Independent Auditor's Report

Key Audit Matters – continued

Key audit matter

How our audit addressed the key audit matter

Impairment assessment on property, plant and equipment relating to the food waste recycling segment

We identified the impairment assessment of property, plant and equipment relating to the food waste recycling segment as a key audit matter due to the significant judgements and estimations are required by the management in assessing the impairment of property, plant and equipment relating to food waste recycling segment.

With reference to the continuous segment loss and unfavourable market condition noted for the food waste recycling segment, the management considered that indication of impairment of all property, plant and equipment of the Group existed as at 31 December 2018. Accordingly, the management assessed the impairment of the property, plant and equipment by comparing the recoverable amount of cash-generating unit of the food waste recycling segment with their carrying amounts at the end of the reporting period. The recoverable amount was determined with reference to the value in use of the cash-generating unit, a suitable discount rate, growth rates and expected changes in selling prices and direct costs in order to calculate the present value.

As disclosed in note 15 to the consolidated financial statements, impairment loss of HK\$85,490,000 has been recognised for the year.

Our procedures in relation to evaluating the impairment assessment on property, plant and equipment relating to the food waste recycling segment included:

- Understanding the key controls relating to the impairment assessment process used by the management including the value in use calculation;
- Evaluating the reasonableness of the input data of the cash flow forecast by comparing the historical financial forecast against the actual performance of the cash-generating unit;
- Evaluating the reasonableness of the assumptions made by the management in determining the value in use of the property, plant and equipment relating to the food waste recycling segment, including suitable discount rate, growth rates and expected changes in selling prices and direct costs; and
- Evaluating management assessment on the potential impact on the value in use calculations by the reasonably possible changes on growth rates and discount rate.

Independent Auditor's Report

Key Audit Matters – continued

Key audit matter

Valuation of Compensated Properties included in long-term other assets related to disposal of land and building

We identified the valuation of the Compensated Properties included in the consideration for the disposal of the Group's land and building arising from the Redevelopment Project (details in note 19) as a key audit matter due to the significant judgements and estimations required by the management in assessing the fair value of the Compensated Properties.

As disclosed in note 19 to the consolidated financial statements, the Group disposed the land and building under a Redevelopment Project and part of the consideration included certain residential or commercial properties (the "Compensated Properties") to be received upon the completion of Redevelopment Project. The fair value of the Compensated Properties to be received is based on the valuations performed by an independent firm of qualified professional property valuer (the "Valuer"). The valuations are dependent on key inputs and significant assumptions which involve judgements, including discount rate, capitalisation rate, occupancy rate and comparable market rents and transactions with adjustments to reflect different locations or conditions for the completed Compensated Properties. As at 31 December 2018, the carrying amount of the Compensated Properties is HK\$1,470,566,000.

How our audit addressed the key audit matter

Our procedures in relation to evaluating the valuation of long-term other assets arising from the Redevelopment Project included:

- Understanding the key controls relating to the valuation assessment process used by the management including the fair value calculation;
- Evaluating the competence, capabilities and objectivity of the Valuer;
- Understanding the Valuer's valuation basis and methodology, significant assumptions adopted and key inputs used in the valuations; and
- Assessing the reasonableness of key inputs and significant assumptions used in the valuations by comparing to relevant market information on prices, rentals achieved and capitalisation rates adopted in other similar properties in the neighbourhood and benchmarking the discount rates against historical data, market trend and applicable market yields, with the involvement of our valuation expert.

Independent Auditor's Report

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 our agreed terms of engagement, 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.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – *continued*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – *continued*

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 Kwok Lai Sheung.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Turnover	5	926,232	914,020
Cost of sales		(801,306)	(762,033)
Gross profit		124,926	151,987
Other income	6	11,986	9,687
Other gains and losses	7	22,019	4,819
Selling and distribution costs		(52,600)	(59,021)
Administrative expenses		(192,458)	(132,224)
Gain on disposal of land and building	19	1,611,880	–
Impairment losses recognised on trade receivables		(17,375)	(15,220)
Impairment loss recognised on property, plant and equipment		(85,490)	(38,952)
Finance costs	8	(17,855)	(14,675)
Profit (loss) before taxation		1,405,033	(93,599)
Taxation	9	(238,156)	(19,967)
Profit (loss) for the year	10	1,166,877	(113,566)
Other comprehensive (expense) income Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		(65,056)	77,984
Total comprehensive income (expense) for the year		1,101,821	(35,582)
Earnings (loss) per share	13		
Basic (HK cents per share)		152.75	(15.00)
Diluted (HK cents per share)		150.94	(15.00)

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Investment properties	14	36,390	34,910
Property, plant and equipment	15	408,897	539,677
Prepaid lease payments	16	58,320	69,616
Deposits paid for acquisition of property, plant and equipment		21,197	30,141
Deposit and prepayments for a life insurance policy	17	49,380	49,825
Long-term prepayment	19	10,750	21,500
Long-term other assets	19	1,570,459	–
		2,155,393	745,669
Current assets			
Inventories	20	172,119	172,069
Trade and other receivables	21	380,975	406,393
Contract assets	22	9,023	–
Taxation recoverable		1,332	1,332
Pledged bank deposits	23	7,558	20,602
Bank balances and cash	23	37,014	57,365
		608,021	657,761
Current liabilities			
Trade and other payables	24	220,391	239,435
Contract liabilities	25	19,438	–
Amounts due to directors	26	64,830	45,600
Taxation payable		5,471	14,839
Obligations under finance leases – due within one year	27	2,196	3,930
Secured bank borrowings	28	235,301	255,805
		547,627	559,609
Net current assets		60,394	98,152
Total assets less current liabilities		2,215,787	843,821
Non-current liabilities			
Obligations under finance leases – due after one year	27	1,272	3,468
Amount due to a director	26	70,252	–
Deposits received	19	106,858	131,894
Deferred taxation	29	234,102	7,286
		412,484	142,648
Net assets		1,803,303	701,173

Consolidated Statement of Financial Position

At 31 December 2018

	NOTE	2018 HK\$'000	2017 HK\$'000
Capital and reserves			
Share capital	30	76,432	76,332
Reserves		1,726,871	624,841
Total equity		1,803,303	701,173

The consolidated financial statements on pages 37 to 121 were approved and authorised for issue by the Board of Directors on 27 March 2019 and are signed on its behalf by:

Lee Tat Hing
Chairman

Fung Mei Po
*Vice Chairperson
and
Chief Executive Officer*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Non-distributable reserve HK\$'000 (Note a)	Share option reserve HK\$'000	Translation reserve HK\$'000	PRC statutory surplus reserve HK\$'000 (Note b)	(Accumulated losses) retained profits HK\$'000	
At 1 January 2017	75,712	341,251	251,393	11,467	203,652	31,213	(179,734)	734,954
Loss for the year	-	-	-	-	-	-	(113,566)	(113,566)
Other comprehensive income for the year	-	-	-	-	77,984	-	-	77,984
Total comprehensive income (expense) for the year	-	-	-	-	77,984	-	(113,566)	(35,582)
Exercise of share options	620	2,050	-	(869)	-	-	-	1,801
Transfers	-	-	-	-	-	5,227	(5,227)	-
At 31 December 2017	76,332	343,301	251,393	10,598	281,636	36,440	(298,527)	701,173
Profit for the year	-	-	-	-	-	-	1,166,877	1,166,877
Other comprehensive expense for the year	-	-	-	-	(65,056)	-	-	(65,056)
Total comprehensive (expense) income for the year	-	-	-	-	(65,056)	-	1,166,877	1,101,821
Exercise of share options	100	358	-	(149)	-	-	-	309
Release of lapsed of share options	-	-	-	(492)	-	-	492	-
Transfers	-	-	-	-	-	3,553	(3,553)	-
At 31 December 2018	76,432	343,659	251,393	9,957	216,580	39,993	865,289	1,803,303

Notes:

- (a) The non-distributable reserve of the Group arose as a result of capitalisation of retained profits by subsidiaries.
- (b) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiaries are required to maintain a statutory surplus reserve fund. Statutory surplus reserve fund is non-distributable. Appropriations to such reserve are made out of net profit after taxation of the PRC subsidiaries at the discretion of its board of directors. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied to convert into capital by means of capitalisation issue.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
Cash flows from operating activities		
Profit (loss) before taxation	1,405,033	(93,599)
Adjustments for:		
Allowance (reversal of allowance) for inventories	2,228	(4,928)
Amortisation of intangible assets	–	10
Amortisation of prepaid lease payments	2,279	2,323
Bank interest income	(282)	(684)
Depreciation of property, plant and equipment	56,945	60,270
Director emoluments	70,252	–
Fair value gain on Deposits Received from Redevelopment Project	(20,545)	–
Foreign exchange difference on inter-company balances	14,353	18,330
Gain arising from changes in fair value of investment properties	(1,480)	(4,220)
Gain arising from changes in fair value of long-term other assets	(23,399)	–
Gain on disposal of land and building	(1,611,880)	–
Impairment loss recognised on property, plant and equipment	85,490	38,952
Impairment loss recognised on trade receivables	17,375	15,220
Impairment loss recognised on other receivables	–	776
Interest income from a deposit placed for a life insurance policy	(1,140)	(1,108)
Imputed interest income from compensation income receivable from Redevelopment Project	(2,740)	–
Interest expenses	17,855	14,675
Legal and consultancy fee for Redevelopment Project	10,750	–
Loss on disposal/write-off of property, plant and equipment	1,076	40,808
Premium charges on a life insurance policy	1,542	1,507
Operating cash flows before movements in working capital	23,712	88,332
(Increase) decrease in inventories	(11,272)	12,816
Increase in trade and other receivables	(4,482)	(101,292)
Increase in contract assets	(9,023)	–
Increase in trade and other payables	24,705	28,049
Decrease in contract liabilities	(9,530)	–
Net cash generated from operations	14,110	27,905
Income tax paid in the PRC	(14,819)	(16,250)
Net cash (used in) generated from operating activities	(709)	11,655

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
Cash flows from investing activities		
Compensation received from Redevelopment Project	11,352	–
Withdrawal of pledged bank deposits	12,676	11,144
Proceeds from disposal of property, plant and equipment	6,890	1,419
Interest received	282	684
Purchase of property, plant and equipment	(34,235)	(24,760)
Deposits paid for acquisition of property, plant and equipment	(1,935)	(10,396)
Placement of pledged bank deposits	(5)	(3,312)
Deposits received from Redevelopment Project	–	95,923
	<hr/>	<hr/>
Net cash (used in) generated from investing activities	(4,975)	70,702
	<hr/>	<hr/>
Cash flows from financing activities		
Bank loans raised	91,381	108,522
Advance from directors	19,578	12,686
Net increase (decrease) in trust receipts and import loans	16,106	(10,622)
Exercise of share options	309	1,801
Net increase (decrease) in bank overdrafts	221	(434)
Repayments of bank loans	(124,246)	(175,701)
Interest paid	(12,640)	(15,106)
Repayments of obligations under finance leases	(3,930)	(3,548)
Repayments to directors	(348)	(16,709)
	<hr/>	<hr/>
Net cash used in financing activities	(13,569)	(99,111)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(19,253)	(16,754)
Cash and cash equivalents at 1 January	57,365	69,334
Effect of foreign exchange rate changes	(1,098)	4,785
	<hr/>	<hr/>
Cash and cash equivalents at 31 December, represented by bank balances and cash	37,014	57,365
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

World Houseware (Holdings) Limited (the “Company”) is a public limited company incorporated in the Cayman Islands and under the Companies Law of the Cayman Islands and registered as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate controlling parties are Mr. Lee Tat Hing and his spouse, Ms. Fung Mei Po, who are also the Chairman and Chief Executive Officer of the Company, respectively. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 41.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company.

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 the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses 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 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations.

The Group recognises revenue from the following major sources:

- Manufacture and distribution of household products
- Manufacture and distribution of PVC pipes and fittings
- Provision of food waste recycling services
- Leasing of investment properties

Revenue from leasing of investment properties will continue to be accounted for in accordance with HKAS 17 “Leases”, whereas revenue from provision of food waste recycling services recognised over time and revenue from manufacture and distribution of household products and PVC pipes and fittings recognised at a point in time will be accounted for under HKFRS15.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – *continued*

HKFRS 15 “Revenue from Contracts with Customers” – *continued*

Summary of effects arising from initial application of HKFRS 15

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

	Carrying amounts previously reported at 31 December 2017 HK\$'000	Reclassification HK\$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK\$'000
Current liabilities			
Trade and other payables	239,435	(29,613)	209,822
Contract liabilities	–	29,613	29,613

As at 1 January 2018, advances from customers of HK\$29,613,000 in respect of manufacture and distribution contracts previously included in trade and other payables were reclassified to contract liabilities as the Group has obligation to transfer goods or services to its customers for which the Group has received consideration from the customers.

The application of HKFRS 15 has had no material impact on the Group's accumulated losses as at 1 January 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – *continued*

HKFRS 15 “Revenue from Contracts with Customers” – *continued*

Summary of effects arising from initial application of HKFRS 15 – *continued*

The following tables summarise the impacts of applying HKFRS 15 on the Group’s consolidated statement of financial position as at 31 December 2018 and 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

	Notes	As reported HK\$’000	Reclassification HK\$’000	Amounts without application of HKFRS 15 HK\$’000
Trade and other receivables	(a)	380,975	9,023	389,998
Contract assets	(a)	9,023	(9,023)	–
Trade and other payables	(b)	220,391	19,438	239,829
Contract liabilities	(b)	19,438	(19,438)	–

Impact on the consolidated statement of cash flows

	Notes	As reported HK\$’000	Reclassification HK\$’000	Amounts without application of HKFRS 15 HK\$’000
Increase in trade and other receivables	(a)	(4,482)	(9,023)	(13,505)
Increase in contract assets	(a)	(9,023)	9,023	–
Increase in trade and other payables	(b)	24,705	(9,530)	15,175
Decrease in contract liabilities	(b)	(9,530)	9,530	–

Notes:

- (a) As at 31 December 2018, retention receivables of HK\$9,023,000 in respect of manufacture and distribution of PVC pipes and fittings was classified as contract assets and the amount shall remain as it is included in trade and other receivables without application of HKFRS 15.
- (b) As at 31 December 2018, advances from customers of HK\$19,438,000 in respect of manufacturing and distribution contracts was classified as contract liabilities and the amount shall remain as it is and included in trade and other payables without application of HKFRS 15.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – *continued*

HKFRS 9 “Financial Instruments”

In the current year, the Group has applied HKFRS 9 “Financial Instruments” 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 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses 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.

The directors of the Company reviewed and assessed the Group’s financial assets and financial liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date. There is no change in classification and measurement on the Group’s financial assets and financial liabilities.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables and contract assets. Except for those which had been determined as credit-impaired under HKAS 39, trade receivables and contract assets have been assessed individually with outstanding significant balances, 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, pledged 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, except for the other receivables which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against accumulated losses as the estimated allowance under the ECL model was not significantly different to that under HKAS 39 based on the counterparties’ past repayment history and forward looking information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – *continued*

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 1 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 1 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 1 January 2020.

⁵ Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – *continued*

HKFRS 16 “Leases” – *continued*

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$34,498,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$1,080,000 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. Adjustments to refundable rental deposits received would be considered as advance lease payments.

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 23 “Borrowing Costs”

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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 (“Listing Rules”) and by the Hong Kong Companies Ordinance (the “CO”).

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and long-term other assets 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.

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.

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

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

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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 a contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates 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 Company and when specific criteria have been met for each of the Company's activities, as described below.

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

Service income is recognised when services are provided.

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

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

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 or 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 the profit or loss in the period in which the property is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of assets other than construction in progress over their estimated useful lives. 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Leases

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Leases – *continued*

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

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.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified 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 value 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. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

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 the profit or loss in the period in which they arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Foreign currencies – *continued*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using the exchange rates prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the year, 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 translation reserve.

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), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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 are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong and retirement benefit schemes in the PRC are recognised as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Short-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.

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 difference 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 goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation – *continued*

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.

Intangible assets

Internally – generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Intangible assets – *continued*

Internally – generated intangible assets – research and development expenditure – continued

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

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

Long-term other assets

Long-term other assets are initially measured at fair value and subsequently at fair value through profit or loss (“FVTPL”).

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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 marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial assets 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.

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.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

All other financial assets are subsequently measured at 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 OCI 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 FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

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

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, contract assets, other receivables, pledged bank deposits and bank balances). 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 are 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 receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix based on internal credit ratings.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

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 foregoing, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

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.

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.

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.

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 receivables, when the amounts are over two 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

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;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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 receivables where the corresponding adjustment is recognised through a loss allowance account.

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

Financial assets currently held by the Group are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

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 1 January 2018)

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or 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 average credit period granted, 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 trade receivables, 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 trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) – continued

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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.

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 instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, contract liabilities, amounts due to directors, obligations under finance leases, secured bank borrowings and deposits received are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial liabilities and equity instruments – continued

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.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees, directors and non-executive directors

Equity-settled share based payments to employees, directors and non-executive directors are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

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

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings for groupings of various trade receivables 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 receivables with significant 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 receivables are disclosed in notes 36 and 21 respectively.

Estimated impairment of property, plant and equipment relating to food waste recycling segment

When there is indication that property, plant and equipment may be impaired, the Group estimates the recoverable amount of the relevant asset or the cash-generating unit to which the asset belongs. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit of the food waste recycling segment, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit, a suitable discount rate, growth rates and expected changes in selling prices and direct costs in order to calculate present value. Where the actual future cash flows are less than expected, or changes occur in facts or circumstances which results in downward revision of future cash, further impairment loss may arise. As at 31 December 2018, impairment loss of HK\$85,490,000 (2017: HK\$38,952,000) has been recognised. Detail of the recoverable amount calculation are disclosed in note 15.

Valuation of Compensated Properties included in long-term other assets (as defined in note 19)

The Compensated Properties included in long-term other assets of HK\$1,470,566,000 at 31 December 2018 (2017: nil) are measured at fair value. The amount was based on a valuation conducted by Asset Appraisal Limited, an independent firm of qualified professional property valuer (the "Valuer") using property valuation techniques which dependent on key inputs and significant assumptions that involve judgement, including discount rate, capitalisation rate, occupancy rate and comparable market rents and transactions with adjustments to reflect different locations or conditions for completed Compensated Properties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

Valuation of Compensated Properties included in long-term other assets (as defined in note 19) – *continued*

The basis of valuation is disclosed in note 19. Changes to these assumptions and inputs would result in changes in the fair value of the Compensated Properties and corresponding adjustments to the amount of gain or loss reported in the profit or loss.

In estimating the fair value of the Compensated Properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages the Valuer to perform the valuation of the Group's Compensated Properties included in long-term other assets. At the end of the reporting period, the designated team works closely with the Valuer to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. When there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of directors of the Company.

Deferred tax asset

As at 31 December 2018, a deferred tax asset of HK\$6,256,000 (2017: HK\$3,404,000) in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of HK\$287,863,000 (2017: HK\$291,596,000) 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 taxable 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 asset may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Estimated impairment loss of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. The amount of allowance would be changed as a result of the changes in the current market conditions subsequently.

The carrying amount of inventories at 31 December 2018 is HK\$172,119,000 (net of allowance for inventories of HK\$3,628,000) (2017: HK\$172,069,000 (net of allowance for inventories of HK\$1,466,000)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. TURNOVER AND SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. This is also the basis upon which the Group is arranged and organised.

Specifically, the Group's reportable and operating segments under HKFRS 8 "Operating Segment" are as follows:

Household products	–	manufacture and distribution of household products
PVC pipes and fittings	–	manufacture and distribution of PVC pipes and fittings
Food waste recycling	–	food waste recycling business
Property investments	–	investment in properties (renamed from "others" in 2018)

No operating segments have been aggregated in arriving at the reportable segments of the Group.

Segment turnover and results

The following is an analysis of the Group's turnover and results by operating and reportable segments.

For the year ended 31 December 2018

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Food waste recycling HK\$'000	Property investments HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover						
Sales of goods recognised at a point in time						
External sales	204,330	710,949	–	–	–	915,279
Inter-segment sales	75	372	–	–	(447)	–
Service income recognised over time	–	–	6,496	–	–	6,496
Rental income	–	–	–	4,457	–	4,457
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total segment revenue	204,405	711,321	6,496	4,457	(447)	926,232
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Segment profit (loss)	8,060	13,894	(105,134)	1,604,162	–	1,520,982
Bank interest income						282
Interest income from a deposit placed for a life insurance policy						1,140
Finance costs						(17,855)
Premium charges on a life insurance policy						(1,542)
Unallocated corporate expenses						(97,974)
						<hr/>
Profit before taxation						1,405,033
						<hr/>

Inter-segment sales are charged at cost plus certain mark-up.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment turnover and results – continued

For the year ended 31 December 2017

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Food waste recycling HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover						
Sales of goods recognised at a point in time						
External sales	203,240	699,139	–	–	–	902,379
Inter-segment sales	545	445	–	–	(990)	–
Service income recognised over time	–	–	7,763	–	–	7,763
Rental income	–	–	–	3,878	–	3,878
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total segment revenue	203,785	699,584	7,763	3,878	(990)	914,020
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Segment (loss) profit	(36,260)	42,056	(64,512)	8,098	–	(50,618)
Bank interest income						684
Interest income from a deposit placed for a life insurance policy						1,108
Finance costs						(14,675)
Premium charges on a life insurance policy						(1,507)
Unallocated corporate expenses						(28,591)
						<hr/>
Loss before taxation						(93,599)
						<hr/>

Inter-segment sales are charged at cost plus certain mark-up.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of interest income from a deposit placed for a life insurance policy, bank interest income, premium charges on a life insurance policy, unallocated corporate expenses including directors' remuneration paid on/payable by the Company and certain administrative expenses for corporate use and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. TURNOVER AND SEGMENT INFORMATION – *continued*

Segment turnover and results – *continued*

Performance obligations for contracts with customers

(a) *manufacture and distribution of household products*

The Group sells household products to customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to customers. When the customer initially places sales order and consideration received by the Group is recognised as a contract liability until the goods have been delivered to the customer. The normal credit term is up to 60 days upon delivery.

(b) *manufacture and distribution of PVC pipes and fittings*

The Group sells PVC pipes and fittings to customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to customers. When the customer initially places sales order and consideration received by the Group is recognised as a contract liability until the goods have been delivered to the customer. The normal credit term is up to 180 days upon delivery.

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which is usually one year from the date of the delivery. The relevant amount of contract asset is reclassified to trade receivables when the defect liability period expires. The defect liability period serves as an assurance that the products supplied comply with agreed-upon specifications and such assurance cannot be purchased separately.

(c) *food waste recycling business*

The Group provides food waste collection and recycling services to customers. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue is recognised for these services based on the stage of completion of the contract using output method.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment assets and liabilities

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

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Food waste recycling HK\$'000	Property investments HK\$'000	Consolidated HK\$'000
At 31 December 2018					
Assets					
Segment assets	261,099	718,540	6,941	1,617,599	2,604,179
Unallocated assets					159,235
Consolidated total assets					2,763,414
Liabilities					
Segment liabilities	48,272	186,907	4,157	337,448	576,784
Unallocated liabilities					383,327
Consolidated total liabilities					960,111
At 31 December 2017					
Assets					
Segment assets	310,564	750,071	113,189	34,910	1,208,734
Unallocated assets					194,696
Consolidated total assets					1,403,430
Liabilities					
Segment liabilities	180,418	185,760	1,747	–	367,925
Unallocated liabilities					334,332
Consolidated total liabilities					702,257

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment assets and liabilities – continued

For the purposes of monitoring segment performances and allocating resources among segments:

- all assets are allocated to operating segments other than deposit and prepayments for a life insurance policy, taxation recoverable, pledged bank deposits, bank balances and cash as well as certain leasehold land and buildings where such buildings are provided to group directors as residential accommodation (see note 11(i)).
- all liabilities are allocated to operating segments other than amounts due to directors, taxation payable, secured bank borrowings, obligations under finance leases and accruals of administrative expenses in head office.

Other segment information

For the year ended 31 December 2018

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Food waste recycling HK\$'000	Property investments HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit (loss) or segment assets:							
Addition to property, plant and equipment	28,043	21,485	-	-	49,528	-	49,528
Depreciation of property, plant and equipment	11,054	30,717	13,234	-	55,005	1,940	56,945
Amortisation of prepaid lease payments	868	1,411	-	-	2,279	-	2,279
Impairment losses recognised on trade receivables	-	17,375	-	-	17,375	-	17,375
Allowance for inventories	-	-	2,228	-	2,228	-	2,228
Net foreign exchange loss (gain)	38,032	(1,162)	(1)	-	36,869	-	36,869
Impairment loss recognised on property, plant and equipment	-	-	85,490	-	85,490	-	85,490
Loss on disposal/write-off of property, plant and equipment	445	631	-	-	1,076	-	1,076
Gain arising from changes in fair value of investment properties	-	-	-	(1,480)	(1,480)	-	(1,480)
Gain arising from changes in fair value of long-term other assets	-	-	-	(23,399)	(23,399)	-	(23,399)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. TURNOVER AND SEGMENT INFORMATION – continued

Other segment information – continued

For the year ended 31 December 2017

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Food waste recycling HK\$'000	Others HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit (loss) or segment assets:							
Addition to property, plant and equipment	21,078	8,622	1,485	-	31,185	-	31,185
Depreciation of property, plant and equipment	14,675	30,979	12,676	-	58,330	1,940	60,270
Amortisation of intangible assets	10	-	-	-	10	-	10
Amortisation of prepaid lease payments	954	1,369	-	-	2,323	-	2,323
Impairment losses recognised on trade receivables	-	15,220	-	-	15,220	-	15,220
Impairment loss recognised on other receivables	-	776	-	-	776	-	776
Reversal of allowance for inventories	(4,928)	-	-	-	(4,928)	-	(4,928)
Net foreign exchange loss (gain)	11,136	11,281	(1)	-	22,416	-	22,416
Impairment loss recognised on property, plant and equipment	-	-	38,952	-	38,952	-	38,952
Loss on disposal/write-off of property, plant and equipment	39,858	950	-	-	40,808	-	40,808
Gain arising from changes in fair value of investment properties	-	-	-	(4,220)	(4,220)	-	(4,220)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. TURNOVER AND SEGMENT INFORMATION – *continued*

Geographical information

More than 90% of the sales of the Group's household products were made to customers in the United States of America.

More than 90% of the sales of the Group's PVC pipes and fittings made to customers in the PRC.

More than 90% of the Group's non-current assets are located in the PRC. Accordingly, no non-current assets by geographical location is presented.

Information about major customers

During the year ended 31 December 2018, no customer contributed more than 10% of the Group's external revenue.

During the year ended 31 December 2017, one customer in PVC pipes and fittings segment contributed HK\$95,982,000 which is over 10% of the Group's external revenue.

6. OTHER INCOME

	2018 HK\$'000	2017 HK\$'000
Bank interest income	282	684
Courier and transportation income	1,280	1,748
Imputed interest income from compensation income receivable from Redevelopment Project	2,740	–
Interest income from a deposit placed for a life insurance policy	1,140	1,108
Government grants (Note)	4,224	2,629
Sales of scrap materials	278	992
Others	2,042	2,526
	<hr/> 11,986 <hr/>	<hr/> 9,687 <hr/>

Note: The amounts mainly represent the incentives granted by the relevant PRC government authorities to the Group for recognition of establishment of environmental friendly manufacturing factories by enhancing energy efficiency during the manufacturing process.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

7. OTHER GAINS AND LOSSES

	2018 HK\$'000	2017 HK\$'000
Fair value gain on Deposits Received from Redevelopment Project (note 19)	20,545	–
Compensation income from Redevelopment Project (note 19)	16,021	63,823
Gain arising from changes in fair value of investment properties	1,480	4,220
Gain arising from changes in fair value of long-term other assets	23,399	–
Loss on disposal/write-off of property, plant and equipment (Note a)	(1,076)	(40,808)
Net foreign exchange loss	(36,869)	(22,416)
Loss arising from changes in fair value of foreign currency forwards contracts (Note b)	(1,481)	–
	<u>22,019</u>	<u>4,819</u>

Notes:

- a. For the year ended 31 December 2017, included in the amount is the loss on disposal/write-off amounting to HK\$39,499,000 of certain property, plant and equipment with carrying amount of approximately HK\$41,373,000 relating to the Redevelopment Project which the detail was set out in note 19 (2018: nil).
- b. The foreign currency forward contracts were mainly related to the purchase of Renminbi (“RMB”) and sale of United States Dollar (“USD”) at contract rates at RMB6.422 per one USD at aggregate notional amount of USD 3,000,000 equivalent to approximately HK\$23,399,000. All foreign currency forward contracts expired as at 31 December 2018.

8. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest on:		
– secured bank borrowings	15,605	13,681
– finance leases	269	399
– amounts due to directors	1,213	1,379
Interest/imputed interest on Deposits Received from Redevelopment Project	1,285	–
	<u>18,372</u>	<u>15,459</u>
Less: amount capitalised in the cost of qualifying assets	(517)	(784)
	<u>17,855</u>	<u>14,675</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

9. TAXATION

	2018 HK\$'000	2017 HK\$'000
PRC Enterprise Income Tax ("EIT")		
– charge for the year	6,010	16,986
– overprovision in prior years	(247)	(910)
	<u>5,763</u>	<u>16,076</u>
Deferred taxation charge (note 29)		
– charge for the year	128,451	434
– withholding tax on profits of a non-resident in the PRC	103,942	3,457
	<u>232,393</u>	<u>3,891</u>
Total	<u><u>238,156</u></u>	<u><u>19,967</u></u>

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

On 21 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 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 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%. Hong Kong Profits Tax was calculated at a flat rate of 16.5% on the estimated assessable profits for the year ended 31 December 2017. As the Company and its subsidiaries operating in Hong Kong do not have assessable profits, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements.

PRC withholding income tax of 10% shall be levied on the income earned in the PRC by a foreign subsidiary.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

9. TAXATION – *continued*

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

	2018	2017
	HK\$'000	HK\$'000
Profit (loss) before taxation	1,405,033	(93,599)
Tax charge (credit) at the domestic income tax rate of 25%	351,258	(23,400)
Tax effect of expenses not deductible for tax purpose	61,436	34,180
Tax effect of income not taxable for tax purpose	(294,836)	(8,348)
Tax effect of tax losses not recognised as deferred tax asset	20,398	15,820
Withholding tax on profits of a non-resident in the PRC	103,942	3,457
Income tax on concessionary rate (Note)	(3,765)	–
Utilisation of tax losses previously not recognised as deferred tax asset	(30)	(832)
Overprovision in prior years	(247)	(910)
Tax charge for the year	238,156	19,967

Note: A subsidiary which is recognised as High and New-tech Enterprise has been granted tax concessions by the local tax bureau and is entitled to PRC EIT at concessionary rate of 15% (2017: 25%) for the year ended 31 December 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

10. PROFIT (LOSS) FOR THE YEAR

	2018 HK\$'000	2017 HK\$'000
Profit (loss) for the year has been arrived at after charging:		
Directors' emoluments (note 11)	88,357	18,933
Other staff's salaries and wages	86,066	95,017
Other staff's retirement benefit scheme contributions	4,738	5,266
	<hr/>	<hr/>
Total staff costs	179,161	119,216
	<hr/>	<hr/>
Depreciation of property, plant and equipment	56,945	60,270
Amortisation of intangible assets (included in cost of sales)	–	10
Amortisation of prepaid lease payments	2,279	2,323
	<hr/>	<hr/>
Total depreciation and amortisation	59,224	62,603
	<hr/>	<hr/>
Allowance for inventories	2,228	–
Auditors' remuneration	2,918	2,753
Cost of inventories recognised as an expense	799,078	766,961
Impairment loss recognised on other receivables	–	776
Operating lease rentals in respect of rented premises	2,769	2,160
Premium charges on a life insurance policy	1,542	1,507
	<hr/>	<hr/>
and after crediting:		
Gross rental income from investment properties	4,457	3,878
Less: direct operating expenses that generated rental income	(370)	(258)
	<hr/>	<hr/>
	4,087	3,620
	<hr/>	<hr/>
Reversal of allowance for inventories	–	4,928
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(i) Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the CO, is as follows:

	Fees HK\$'000	Salaries and other benefits HK\$'000	Bonus HK\$'000 (Note)	Retirement benefit scheme contributions HK\$'000	Total emoluments HK\$'000
2018					
Executive directors:					
Lee Tat Hing	-	6,436	70,252	-	76,688
Fung Mei Po	-	3,385	-	19	3,404
Lee Chun Sing	-	3,385	-	19	3,404
Lee Kwok Sing Stanley	-	2,320	-	18	2,338
Lee Pak Tung	-	667	-	-	667
Chan Lai Kuen Anita <i>(Resigned on 21 June 2018)</i>	-	476	-	-	476
Kwong Bau To <i>(Resigned on 23 June 2018)</i>	-	471	-	9	480
Non-executive director:					
Cheung Tze Man Edward	180	-	-	-	180
Independent non-executive directors:					
Tsui Chi Him Steve	180	-	-	-	180
Hui Chi Kuen Thomas	180	-	-	-	180
Ho Tak Kay	180	-	-	-	180
Shang Sze Ming	180	-	-	-	180
	900	17,140	70,252	65	88,357

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – *continued*

(i) Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the CO, is as follows: – *continued*

	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	Total emoluments HK\$'000
2017				
Executive directors:				
Lee Tat Hing	–	6,677	–	6,677
Fung Mei Po	–	3,250	19	3,269
Lee Chun Sing	–	3,250	19	3,269
Lee Kwok Sing Stanley	–	2,275	18	2,293
Lee Pak Tung	–	625	–	625
Chan Lai Kuen Anita	–	962	10	972
Kwong Bau To	–	910	18	928
Non-executive director:				
Cheung Tze Man Edward	180	–	–	180
Independent non-executive directors:				
Tsui Chi Him Steve	180	–	–	180
Hui Chi Kuen Thomas	180	–	–	180
Ho Tak Kay	180	–	–	180
Shang Sze Ming	180	–	–	180
	900	17,949	84	18,933
	900	17,949	84	18,933

Note: The bonus is calculated at 5% of the Group's consolidated profit before taxation.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments shown above were mainly for their services as directors of the Company or its subsidiaries. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – *continued*

(i) Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the CO, is as follows: – *continued*

Ms. Fung Mei Po is also the Chief Executive of the Company and her emoluments disclosed above include those for services rendered by her as the Chief Executive.

In addition to the amount disclosed above, during the year, the Group also provided one of its leasehold properties in Hong Kong as residential accommodation for Mr. Lee Tat Hing and Ms. Fung Mei Po. The estimated monetary value of such accommodation, using the ratable value as an approximation, amounted to HK\$1,500,000 (2017: HK\$1,419,000) for the year.

(ii) Information regarding employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2017: four) were directors including the Chief Executive of the Company whose emoluments are included in the disclosures in (i) above. The emoluments of the remaining one (2017: one) individual is as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other benefits	2,320	2,775
Retirement benefit scheme contributions	18	18
	<u>2,338</u>	<u>2,793</u>

The emoluments was within the following bands:

	Number of employees	
	2018	2017
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	–	1
	<u>1</u>	<u>1</u>

No emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or Chief Executive has waived or agreed to waive any emoluments during both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

12. DIVIDENDS

No final dividend was paid or proposed during both years ended 31 December 2018 and 31 December 2017, nor has dividend been proposed since the end of both reporting periods.

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2018	2017
	HK\$'000	HK\$'000
Profit (loss) for the purposes of calculating basic and diluted earnings (loss) per share	1,166,877	(113,566)
	Number of shares	
	2018	2017
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	763,911,942	757,338,243
Effect of dilutive potential ordinary shares on share options	9,166,337	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	773,078,279	757,338,243

The diluted loss per share for the year ended 31 December 2017 has not taken into account the effect of outstanding share options as their exercise would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

14. INVESTMENT PROPERTIES

	2018	2017
	HK\$'000	HK\$'000
FAIR VALUE		
At 1 January	34,910	30,690
Increase in fair value recognised in profit or loss	1,480	4,220
	<hr/>	<hr/>
At 31 December	36,390	34,910
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of investment properties shown above comprises:

	2018	2017
	HK\$'000	HK\$'000
Properties situated in Hong Kong	23,200	21,300
Properties situated in the PRC	13,190	13,610
	<hr/>	<hr/>
	36,390	34,910
	<hr/> <hr/>	<hr/> <hr/>

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

The fair values of the Group's investment properties situated in Hong Kong and the PRC as at 31 December 2018 and 2017 have been arrived at on the basis of a valuation carried out on the respective dates by Knight Frank Petty Limited, independent qualified professional valuers not connected to the Group. The fair value of investment properties situated in Hong Kong was determined based on direct comparison method making reference to comparable sales transactions as available in the relevant markets and the fair value of investment properties situated in the PRC was determined based on income capitalisation method by dividing the potential rental income of the property to be valued by the appropriate capitalisation rate.

In determining the fair value of the relevant properties, the financial controller and certain directors of the Company determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The financial controller works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The financial controller reports the findings to the board of directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

14. INVESTMENT PROPERTIES – continued

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

The following table gives information about how the fair values of these investment properties 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	Fair value as at 31.12.2018 HK\$'000	Fair value as at 31.12.2017 HK\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to the fair value
Residential properties in Hong Kong	23,200	21,300	Level 2	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject properties.	N/A	N/A
Commercial properties in the PRC	13,190	13,610	Level 3	Income capitalisation method The key inputs are: (1) Capitalisation rate; (2) Monthly rent; and (3) Level adjustment.	Capitalisation rate, taking into account of the capitalisation of rental income potential, nature of the property, prevailing market condition which range from 6.0% to 6.5% (2017: 6.0% to 6.5%). Monthly rent, using direct market comparables and taking into account age, location and individual factors such as road frontage, size of property and layout/design which range from RMB114/sq.m. to RMB188/sq.m. (2017: RMB110/sq.m. to RMB183/sq.m.). Level adjustment on individual floor of the property concluding with a proportion of 5% to 65% (2017: 5% to 65%) on a base level.	The higher the capitalisation rate, the lower the fair value. The higher the monthly rent, the higher the fair value. The higher the level adjustment, the lower the fair value.

There were no transfers into or out of Level 2 or Level 3 during both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST							
At 1 January 2017	599,869	97,394	70,131	27,035	624,565	37,562	1,456,556
Currency realignment	39,345	5,758	5,063	1,030	37,240	2,856	91,292
Additions	2,279	706	1,736	2,935	4,036	19,493	31,185
Disposals/write-off	(471)	(31,342)	(2,022)	(938)	(121,581)	–	(156,354)
Reclassification	–	1,004	1,135	–	5,082	(7,221)	–
At 31 December 2017	641,022	73,520	76,043	30,062	549,342	52,690	1,422,679
Currency realignment	(24,441)	(1,529)	(3,722)	(800)	(21,496)	(2,112)	(54,100)
Additions	15,824	3,910	3,591	983	12,221	12,999	49,528
Disposals/write-off	(1,227)	(44,711)	(2,919)	(2,792)	(17,221)	–	(68,870)
Disposal under Redevelopment Project (note 19)	(75,065)	–	–	–	–	–	(75,065)
Reclassification	2,857	8,903	180	237	11,765	(23,942)	–
At 31 December 2018	558,970	40,093	73,173	27,690	534,611	39,635	1,274,172
DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	285,621	81,913	45,866	19,109	412,409	–	844,918
Currency realignment	20,536	4,760	3,399	663	23,592	–	52,950
Provided for the year	23,777	3,280	6,966	2,313	23,934	–	60,270
Impairment loss recognised in profit or loss	–	–	–	–	38,952	–	38,952
Eliminated on disposal/write-off	(196)	(28,142)	(831)	(904)	(84,015)	–	(114,088)
At 31 December 2017	329,738	61,811	55,400	21,181	414,872	–	883,002
Currency realignment	(16,120)	(1,291)	(2,731)	(674)	(11,899)	–	(32,715)
Provided for the year	24,910	4,409	5,236	2,327	20,063	–	56,945
Impairment loss recognised in profit or loss	75,104	8,827	–	1,559	–	–	85,490
Eliminated on disposal/write-off	(472)	(44,640)	(808)	(2,315)	(12,669)	–	(60,904)
Eliminated on disposal under Redevelopment Project (note 19)	(66,543)	–	–	–	–	–	(66,543)
At 31 December 2018	346,617	29,116	57,097	22,078	410,367	–	865,275
CARRYING VALUES							
At 31 December 2018	212,353	10,977	16,076	5,612	124,244	39,635	408,897
At 31 December 2017	311,284	11,709	20,643	8,881	134,470	52,690	539,677

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT – *continued*

The cost of leasehold land and buildings is depreciated over the shorter of the term of the lease or twenty-five to fifty years on a straight line basis.

The other items of property, plant and equipment, other than construction in progress, are depreciated on a reducing balance basis, at the following rates per annum:

Furniture, fixtures and equipment	18 – 20%
Leasehold improvements	Over shorter of the term of leases or 20%
Motor vehicles	20%
Plant and machinery	9 – 20%

The construction in progress comprise properties located in the PRC under medium-term lease.

During the year ended 31 December 2018, the management performed an impairment assessment on property, plant and equipment relating to the food waste recycling segment as continuous segment loss and unfavourable market condition was noted during the year. The management estimated the recoverable amount of the cash-generating unit of the food waste recycling segment. The recoverable amount of the cash-generating unit is less than the carrying amount of these property, plant and equipment and accordingly, impairment loss of HK\$85,490,000 (2017: HK\$38,952,000) has been recognised.

The recoverable amount of the cash-generating unit has been determined based on value in use calculation which uses cash flow projections based on most recent financial budgets approved by the management covering a five-year period, and a discount rate of 9.11% (2017: 9.48%). Cash flows beyond the five-year period have been extrapolated using an estimated zero (2017: zero) growth rate which do not exceed the average growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include expected changes in selling prices and direct costs, such estimation is based on the unit's past performance and management's expectations for the market development.

During the year ended 31 December 2018, the Group has capitalised interest expenses on secured bank borrowings amounting to HK\$517,000 (2017: HK\$784,000) and such amounts are included in the construction in progress.

The carrying value of motor vehicles at 31 December 2018 included an amount of HK\$2,179,000 (2017: HK\$2,878,000) in respect of assets held under finance leases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2018 HK\$'000	2017 HK\$'000
Leasehold land located in the PRC	60,341	72,018
Analysed for reporting purposes as:		
Non-current assets	58,320	69,616
Current assets (included in trade and other receivables) (note 21)	2,021	2,402
	60,341	72,018

17. DEPOSIT AND PREPAYMENTS FOR A LIFE INSURANCE POLICY

During the year ended 31 December 2014, a subsidiary of the Company entered into a life insurance policy (the "Policy") with a bank to insure a director of the Company, Ms. Fung Mei Po. Under the Policy, the beneficiary and policy holder is a subsidiary of the Company and the total insured sum is USD20,000,000 (equivalent to HK\$155,000,000). At inception of the Policy, the Group paid a gross premium of approximately USD6,785,000 (equivalent to HK\$52,587,000). The bank will pay the Group a guaranteed interest rate of 4.2% per annum for the first year and a variable return per annum afterwards (with minimum guaranteed interest rate of 2.0% per annum) during the effective period of the Policy. The Group can terminate the Policy at any time and can receive cash back at the date of termination based on the account value of the Policy ("Account Value"), which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus any charges made in accordance with the terms and conditions of the policy. If termination is made between the first policy year to the end of surrender period stated in the Policy, there is a specified amount of surrender charge deducted from Account Value. The directors of the Company consider that the subsidiary of the Company may terminate the Policy at the end of the tenth policy year in 2024 and accordingly, there will be a specified surrender charge of USD749,000 (equivalent to HK\$5,805,000) in accordance with the Policy.

The Policy exposes the insurer to significant insurance risk. The gross premium paid at inception of the Policy consists of a deposit placed element and a prepayment for life insurance element. These two elements are recognised on the consolidated statement of financial position at the aggregate of the amount of gross premium paid plus interest earned, and after deducting the annual cost of insurance, other applicable charges as well as the amortisation of the expected surrender charge at the end of the tenth policy year.

The directors of the Company consider that the expected life of the Policy remains unchanged from the date of initial recognition and the financial impact of the option to terminate the Policy was not significant.

As at 31 December 2018, deposit and prepayments for the life insurance policy amounts to HK\$50,953,000 (2017: HK\$51,355,000) in aggregate, of which HK\$49,380,000 (2017: HK\$49,825,000) and HK\$1,573,000 (2017: HK\$1,530,000), are classified as non-current assets and current assets, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

18. INTANGIBLE ASSETS

	Capitalised development costs HK\$'000
COST	
At 1 January 2017	3,562
Currency realignment	281
	<hr/>
At 31 December 2017	3,843
Currency realignment	(193)
	<hr/>
At 31 December 2018	3,650
	<hr/>
AMORTISATION	
At 1 January 2017	3,552
Currency realignment	281
Charge for the year	10
	<hr/>
At 31 December 2017	3,843
Currency realignment	(193)
	<hr/>
At 31 December 2018	3,650
	<hr/> <hr/>
CARRYING VALUES	
At 31 December 2018 and 2017	–
	<hr/> <hr/>

Development costs were internally generated on development activities of high value-added environmental reborn resources and recycling business.

The intangible assets were amortised over its estimated economic life of 10 years using the straight line method.

19. REDEVELOPMENT PROJECT

On 11 August 2011, one of the subsidiaries of the Company, Welidy Limited (“Welidy”), has entered into a conditional provisional removal remedy agreement (“Provisional Agreement”) with an independent third party property developer (the “Developer”) in relation to the redevelopment of a piece of land owned by the Group (the “Land”) and this Land constitutes part of a redevelopment project (“Redevelopment Project”) proposed by the Developer. The factory building built on the Land is owned by another subsidiary of the Company, namely 世界塑膠餐墊(寶安)有限公司 World Plastic Mat (Baoan) Company Limited (“World (Baoan)”).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

19. REDEVELOPMENT PROJECT – *continued*

Under the Provisional Agreement, the Group agreed to surrender the Land, in the future, to the Developer for certain residential or commercial properties (the “Compensated Properties”) to be built under the Redevelopment Project (the “Transaction”). At that time, the Transaction has yet to be commenced pending to certain conditions, including but not limited to, obtaining approval from the PRC government authorities.

Upon signing the Provisional Agreement, an interest-free refundable deposit amounting to RMB30,000,000 (equivalent to approximately HK\$34,169,000 (2017: HK\$35,971,000)) was received by the Group, which is refundable on the date of receipt of all the Compensated Properties (the “Compensated Properties Receipt Date”) or acknowledgement from PRC government authorities on the termination of Redevelopment Project, whichever is earlier. During the year ended 31 December 2011, the Group also prepaid HK\$21,500,000 for legal and consultancy services to be provided by a PRC lawyer in respect of the Redevelopment Project and the amount is recognised as long-term prepayment in the consolidated statement of financial position (“Prepayment”). As at 31 December 2018, the carrying amount of the Prepayment amounted to HK\$10,750,000 (2017: HK\$21,500,000).

On 16 August 2017, Welidy and World (Baoan) further entered into a supplementary agreement to the Provisional Agreement (the “Supplementary Agreement”) with a fellow subsidiary of the Developer (the “Ultimate Developer”). In the Supplementary Agreement, the consideration for the transaction have been finalised which includes the details of the Compensated Properties to be received upon completion of Redevelopment Project and unconditional and non-refundable monthly compensation income to be received by the Group from the Ultimate Developer up to the Compensated Properties Receipt Date. Upon signing the Supplementary Agreement, further refundable deposits amounting to RMB80,000,000 (equivalent to approximately HK\$95,923,000), in which RMB30,000,000 is interest-free and RMB50,000,000 is interest bearing at 6%, were received by the Group, together with the deposit received in 2011 as mentioned above, hereinafter referred to as the “Deposits Received”. As at 31 December 2017, the Transaction was still pending completion of the relevant conditions including the PRC government approval.

On 8 August 2018, the Transaction with the Ultimate Developer was considered completed as the agreement became unconditional and at which point the Group transferred the control of the Land to the Ultimate Developer and derecognised the Land and factory building. The present value of the future monthly compensation income receivable from that date to the Compensated Properties Receipt Date of RMB94,940,000 (equivalent to approximately HK\$113,024,000) and the fair value of the Compensated Properties of RMB1,271,502,000 (equivalent to approximately HK\$1,513,693,000), as at 8 August 2018 amounting to RMB1,366,442,000 (equivalent to approximately HK\$1,626,717,000) in aggregate, were recognised as consideration for the Transaction (the “Consideration”) and this amount is recognised as long-term other assets in the consolidated statement of financial position. On the same date, the Group recognised gain on disposal of land and building of HK\$1,611,880,000. The net gain after tax was HK\$1,371,859,000 which was derived at after deducting the related taxation effect of HK\$240,021,000 (included taxation expenses in note 9 to the consolidated financial statements).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

19. REDEVELOPMENT PROJECT – *continued*

As part of the Consideration includes the Group's right to obtain Compensated Properties in future while fair value changes from time to time, the carrying amount recognised by the Group would be subject to remeasurement at fair value at each subsequent reporting date prior to obtaining control of the Compensated Properties. The fair values of the Compensated Properties on 8 August 2018 and at the end of the reporting period have been arrived at on the basis of a valuation carried out on those dates by the Valuer not connected with the Group, in accordance with the HKIS Valuation Standards issued by Hong Kong Institute of Surveyors.

As at 31 December 2018, the principal amount of the Deposits Received amounting to RMB110,000,000 (2017: RMB110,000,000) (equivalent to approximately HK\$125,285,000 (2017: HK\$131,894,000)). The deposits received is measured at amortised cost using the effective interest rate at 6.00% per annum. During the year, a fair value change (gain in the profit or loss) resulting from the revision of estimated timing of the refund of the Deposits Received, amounting to HK\$20,545,000 was recognised as income in the profit or loss (note 7).

In addition, during the year ended 31 December 2018, the Group recognised monthly compensation income of approximately RMB13,457,000 (2017: RMB55,271,000) (equivalent to approximately HK\$16,021,000 (2017: HK\$63,823,000)) in aggregate in the profit or loss (note 7) as it was considered as a unconditional payment to the Group prior to 8 August 2018.

As at 31 December 2018, the long-term other assets of RMB1,378,863,000 (equivalent to approximately HK\$1,570,459,000) consists of the present value of the future monthly compensation income receivable of RMB87,706,000 (equivalent to approximately HK\$99,893,000) and the fair value of the Compensated Properties of RMB1,291,157,000 (equivalent to approximately HK\$1,470,566,000).

20. INVENTORIES

	2018 HK\$'000	2017 HK\$'000
Raw materials and consumables	65,423	58,718
Work in progress	26,264	33,782
Finished goods	80,432	79,569
	<hr/> 172,119 <hr/>	<hr/> 172,069 <hr/>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

21. TRADE AND OTHER RECEIVABLES

The following is an aging analysis of the Group's trade receivables presented based on the invoice date, which approximated the respective revenue recognition dates, net of allowance for credit losses, and breakdown of other receivables and prepayments at the end of the reporting period:

	2018	2017
	HK\$'000	HK\$'000
0 – 30 days	107,140	97,650
31 – 60 days	83,271	97,276
61 – 90 days	47,070	68,338
91 – 180 days	49,952	54,212
Over 180 days	63,498	46,740
	<hr/>	<hr/>
Trade receivables, net of allowance for credit losses	350,931	364,216
Prepayments for raw materials, deposits and other receivables	26,450	38,245
Prepaid lease payments (note 16)	2,021	2,402
Deposit and prepayments for a life insurance policy (note 17)	1,573	1,530
	<hr/>	<hr/>
Total trade and other receivables	380,975	406,393
	<hr/> <hr/>	<hr/> <hr/>

The Group allows credit period ranging from 30 days to 180 days, depending on the products sold, to its trade customers. Trade and other receivables are unsecured and interest-free.

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

	2018	2017
	HK\$'000	HK\$'000
USD	34,658	29,954
HK\$	284	594
	<hr/>	<hr/>

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$93,992,000 which are past due as at the reporting date. Out of the past due balances, HK\$86,147,000 has been past due 90 days or more and is not considered as in default based on the good repayment records for those customers and continuous business with the Group. The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

21. TRADE AND OTHER RECEIVABLES – *continued*

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$92,907,000 which are past due at the reporting date for which the Group had not provided for impairment loss as these receivables are either subsequently settled or due from certain major customers with no history of default and have strong financial background and good creditability. The Group does not hold any collateral over these balances.

Aging of trade receivables based on the invoice date which are past due but not impaired

	2017 HK\$'000
31 – 60 days	14,680
61 – 90 days	4,054
91 – 180 days	36,183
Over 180 days	37,990
	<hr/>
	92,907
	<hr/> <hr/>

Allowance on doubtful debts recognised are based on estimated irrecoverable amounts by reference to settlement history and credit history including default or delay in payments, and aging analysis of the trade receivables. Full allowance is made for individual trade receivables aged over one year with no subsequent settlement as historical evidence shows that such receivables are generally not recoverable, or individual trade receivables which has either been placed under liquidation or in severe financial difficulties.

Movement in the allowance for doubtful debts

	2017 HK\$'000
1 January	84,156
Currency realignment	7,244
Impairment losses recognised on trade receivables	15,220
	<hr/>
31 December	106,620
	<hr/> <hr/>

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

22. CONTRACT ASSETS

	31 December 2018 HK\$'000	1 January 2018* HK\$'000
PVC pipes and fittings	9,023	–

* The amounts in this column are after the adjustment from application of HKFRS 15.

The Group typically agrees to a retention period of one year from the date of the delivery of PVC and fitting products, for 10% of the contract value. This amount is included in contract assets until the end of the retention period.

Details of impairment assessment of contract assets for the year ended 31 December 2018 are set out in note 36.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to banks to secure bills payable and secured bank borrowings granted to the Group and are therefore classified as current assets. The pledged bank deposits carry interest at market rates which range from 0.25% to 1.75% (2017: 0.01% to 1.75%) per annum. The pledged deposits will be released upon the settlement of relevant borrowings.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, which carry interest at market rates. Bank balances carry interest at market rates which range from 0.01% to 1.35% (2017: 0.01% to 1.35%) per annum.

The Group's pledged bank deposits and bank balances and cash which are denominated in currencies other than the functional currencies of the relevant group companies are set out below:

	2018 HK\$'000	2017 HK\$'000
USD	5,612	3,836
HK\$	119	818
RMB	13	13

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade and bills payables presented based on the invoice date and other payables at the end of the reporting period:

	2018 HK\$'000	2017 HK\$'000
0 – 30 days	91,053	85,654
31 – 60 days	25,978	31,386
61 – 90 days	17,497	22,078
Over 90 days	35,652	25,214
	<hr/>	<hr/>
Total trade and bills payables	170,180	164,332
Other payables	50,211	75,103
	<hr/>	<hr/>
Total trade and other payables	220,391	239,435

The following is an analysis of the Group's other payables at the end of the reporting period:

	2018 HK\$'000	2017 HK\$'000
Accrued expenses	12,583	8,205
Deposits received	10,391	6,672
Payable on acquisition of property, plant and equipment	6,027	674
Interest payables	4,800	353
Value-added tax payables	4,679	6,272
Wages and bonus payable	4,181	4,246
Property tax and other tax payables	806	2,290
Receipt in advance*	–*	29,613
Compensation income from Redevelopment Project received in advance (note 19)	–	10,470
Others	6,744	6,308
	<hr/>	<hr/>
	50,211	75,103

* Receipt in advance as at 31 December 2018 are recognised as contract liabilities upon application of HKFRS 15.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. TRADE AND OTHER PAYABLES – *continued*

The average credit period on purchases of goods is 90 days.

Included in trade and other payables are the following amounts denominated in currency other than the functional currencies of the relevant group companies:

	2018 HK\$'000	2017 HK\$'000
USD	27,100	43,699

25. CONTRACT LIABILITIES

	31 December 2018 HK\$'000	1 January 2018* HK\$'000
Household products	1,458	1,579
PVC pipes and fittings	17,980	28,034
	19,438	29,613

* The amounts in this column are after the adjustment from the application of HKFRS 15.

The contract liabilities are expected to be settled within the Group's normal operation cycle and therefore are classified as current liabilities.

26. AMOUNTS DUE TO DIRECTORS

At 31 December 2018, the amounts due to directors, who are also the controlling shareholders of the Group, in aggregate of HK\$135,082,000 (2017: HK\$45,600,000) are unsecured. At 31 December 2018, out of which (i) amount of HK\$46,250,000 (2017: HK\$45,600,000) bears interest at 2.9% per annum, and repayable within one year, (ii) amount of HK\$18,580,000 is interest free repayable within one year (2017: nil), and (iii) the remaining balance is interest free, unsecured and repayable over one year (2017: nil).

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27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Amounts payable under finance leases:				
Within one year	2,290	4,199	2,196	3,930
More than one year but not more than two years	687	2,351	647	2,257
More than two years but not more than five years	647	1,273	625	1,211
	3,624	7,823	3,468	7,398
Less: Future finance charges	(156)	(425)	N/A	N/A
Present value of lease obligations	3,468	7,398	3,468	7,398
Less: Amount due for settlement within one year (shown under current liabilities)			(2,196)	(3,930)
Amount due for settlement after one year			1,272	3,468

At 31 December 2018, the Group leased certain motor vehicles and machineries held under finance leases. The lease term is 3 to 5 years (2017: 3 to 5 years). Interest rates underlying the obligations under these finance leases are fixed at contract date and range from 1.7% to 2.5% per annum (2017: 1.7% to 2.5% per annum). These leases have no terms of renewal or escalation clauses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

28. SECURED BANK BORROWINGS

	2018	2017
	HK\$'000	HK\$'000
Variable rate bank loans	197,126	233,956
Variable rate trust receipts and import loans	37,904	21,799
Variable rate bank overdrafts	271	50
	235,301	255,805
The carrying amounts of the above secured bank borrowings are repayable*:		
Within one year	195,509	192,109
Within a period of more than one year but not exceeding two years	9,715	24,101
Within a period of more than two years but not exceeding five years	25,128	33,015
Within a period of more than five years	4,949	6,580
	235,301	255,805
The carrying amounts of secured bank borrowings due within one year (excluding those loans with repayment on demand clause) shown under current liabilities		
	74,032	70,744
The carrying amount of secured bank borrowings that contains a repayment on demand clause (shown under current liabilities) but repayable		
Within one year	121,477	121,365
After one year	39,792	63,696
	161,269	185,061
Amount shown under current liabilities	235,301	255,805

* The amounts due are based on the scheduled repayment dates set out in the loan agreements.

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For the year ended 31 December 2018

28. SECURED BANK BORROWINGS – continued

The bank loans of the Group, which were borrowed by subsidiaries, that are denominated in currency other than the functional currencies of the relevant group companies are set out below:

	2018	2017
	HK\$'000	HK\$'000
USD	59,764	55,278

The ranges of interest rates which is repriced every three months, on the Group's borrowings are as follows:

	2018	2017
Variable rate bank loans, trust receipts, import loans and bank overdrafts	Interest rate: Ranging from Hong Kong Inter Bank Offered Rate ("HIBOR") + 2% to 2.5%, Prime rate and Central Bank base interest rate of the PRC multiplied by 100% to 157%	Interest rate: Ranging from HIBOR + 2% to 2.5%, Prime rate and Central Bank base interest rate of the PRC multiplied by 100% to 120%

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2018	2017
Effective interest rates: Variable rate secured bank borrowings	1.75% to 5.92% per annum	1.75% to 5.87% per annum

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29. DEFERRED TAXATION

The followings are the major deferred taxation assets (liabilities) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Fair value changes in investment properties	Withholding tax on profits of a non-resident in the PRC	EIT liabilities arising from Redevelopment Project	Others	Total
	HK\$'000	HK\$'000	Tax losses HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	(6,962)	(1,203)	3,245	-	1,538	(3,382)
Currency realignment	(72)	-	-	-	59	(13)
Credit (charge) to profit or loss	1,242	(234)	159	(3,457)	(1,601)	(3,891)
At 31 December 2017	(5,792)	(1,437)	3,404	(3,457)	(4)	(7,286)
Currency realignment	28	-	(122)	-	5,671	5,577
Credit (charge) to profit or loss	238	(635)	2,974	(103,942)	-	(232,393)
At 31 December 2018	(5,526)	(2,072)	6,256	(107,399)	(4)	(234,102)

At the end of the reporting period, the Group had unused tax losses of approximately HK\$335,206,000 (2017: HK\$312,226,000) available to offset against future assessable profits. A deferred taxation asset of HK\$6,256,000 (2017: HK\$3,404,000) has been recognised in respect of HK\$47,343,000 (2017: HK\$20,630,000) of such losses. No deferred taxation asset has been recognised in respect of the remaining tax losses of HK\$287,863,000 (2017: HK\$291,596,000) due to the unpredictability of future profit streams. For the year ended 31 December 2018, approximately HK\$33,366,000 (2017: HK\$8,504,000) of tax loss have expired. Included in unrecognised tax losses are losses of HK\$55,411,000 (2017: HK\$106,741,000) that will expire in 5 years (2017: 5 years). Other losses may be carried forward indefinitely. The Group had no other significant unprovided deferred taxation at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

29. DEFERRED TAXATION – *continued*

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiary amounting to HK\$272,881,000 (2017: HK\$243,840,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

30. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	1,500,000,000	150,000
Issued and fully paid:		
At 1 January 2017	757,117,421	75,712
Exercise of share option (Note a)	6,200,000	620
At 31 December 2017	763,317,421	76,332
Exercise of share option (Note b)	1,000,000	100
At 31 December 2018	764,317,421	76,432

There were no changes in the authorised share capital in both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

30. SHARE CAPITAL – *continued*

Notes:

- a. During the year ended 31 December 2017, 1,600,000 shares of HK\$0.1 each were issued to the share option holders at HK\$0.237 per share upon exercise of the share options granted on 24 October 2011 and 4,600,000 shares of HK\$0.1 each were issued at HK\$0.309 per share upon exercise of the share options granted on 12 November 2012 under the share option scheme of the Company adopted on 10 June 2011 and all these shares rank pari passu with other ordinary shares of the Company in all respects.
- b. During the year ended 31 December 2018, 1,000,000 shares of HK\$0.1 each were issued to the share option holders at HK\$0.309 per share upon exercise of the share options granted on 12 November 2012 under the share option scheme of the Company adopted on 10 June 2011 and all these shares rank pari passu with other ordinary shares of the Company in all respects.

31. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Share Option Scheme"), was adopted at an extraordinary general meeting of the Company held on 10 June 2011 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 9 June 2021. Under the Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 46,000,000 (2017: 48,600,000), representing 6.0% (2017: 6.4%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 1 month of the date of grant, upon payment of HK\$1 from each grantee upon acceptance of offer. Options may be exercised immediately from the date of grant of the share options to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

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For the year ended 31 December 2018

31. SHARE-BASED PAYMENT TRANSACTIONS – *continued*

The following tables disclose the movements of the Company's share options in both years:

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Outstanding at 1.1.2017	Exercised during the year	Outstanding at 31.12.2017	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2018
<u>2011 share options</u>										
Non-executive director	24.10.2011	Nil	24.10.2011 – 23.10.2021	0.237	1,000,000	(1,000,000)	-	-	-	-
Independent non-executive directors	24.10.2011	Nil	24.10.2011 – 23.10.2021	0.237	1,200,000	(600,000)	600,000	-	-	600,000
Employees	24.10.2011	Nil	24.10.2011 – 23.10.2021	0.237	2,000,000	-	2,000,000	-	-	2,000,000
					<u>4,200,000</u>	<u>(1,600,000)</u>	<u>2,600,000</u>	<u>-</u>	<u>-</u>	<u>2,600,000</u>
<u>2012 share options</u>										
Executive directors	12.11.2012	Nil	12.11.2012 – 11.11.2022	0.309	14,000,000	-	14,000,000	(1,000,000)	-	13,000,000
Non-executive director	12.11.2012	Nil	12.11.2012 – 11.11.2022	0.309	1,000,000	(1,000,000)	-	-	-	-
Independent non-executive directors	12.11.2012	Nil	12.11.2012 – 11.11.2022	0.309	1,200,000	(600,000)	600,000	-	-	600,000
Employees	12.11.2012	Nil	12.11.2012 – 11.11.2022	0.309	9,000,000	(3,000,000)	6,000,000	-	-	6,000,000
					<u>25,200,000</u>	<u>(4,600,000)</u>	<u>20,600,000</u>	<u>(1,000,000)</u>	<u>-</u>	<u>19,600,000</u>
<u>2015 share options</u>										
Executive directors	01.09.2015	Nil	01.09.2015 – 31.08.2025	0.580	14,600,000	-	14,600,000	-	(1,600,000)	13,000,000
Non-executive director	01.09.2015	Nil	01.09.2015 – 31.08.2025	0.580	500,000	-	500,000	-	-	500,000
Independent non-executive directors	01.09.2015	Nil	01.09.2015 – 31.08.2025	0.580	1,200,000	-	1,200,000	-	-	1,200,000
Employees	01.09.2015	Nil	01.09.2015 – 31.08.2025	0.580	9,100,000	-	9,100,000	-	-	9,100,000
					<u>25,400,000</u>	<u>-</u>	<u>25,400,000</u>	<u>-</u>	<u>(1,600,000)</u>	<u>23,800,000</u>
					<u>54,800,000</u>	<u>(6,200,000)</u>	<u>48,600,000</u>	<u>(1,000,000)</u>	<u>(1,600,000)</u>	<u>46,000,000</u>
Exercisable at the end of the year					<u>54,800,000</u>		<u>48,600,000</u>			<u>46,000,000</u>
Weighted average exercise price					<u>0.429</u>	<u>0.290</u>	<u>0.447</u>	<u>0.309</u>	<u>0.58</u>	<u>0.445</u>

In respect of share options exercised during the year, the weighted average share price at the dates of exercise is HK\$0.570 (2017: HK\$0.600).

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32. RETIREMENT BENEFIT SCHEMES

The Group operates the MPF Scheme for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Mandatory benefits are provided under the MPF Scheme. The Group contributes the lower of 5% of the relevant payroll costs and HK\$1,500 per employee to the MPF Scheme.

Employees of subsidiaries in the PRC are members of the state managed retirement benefit schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions.

The total contribution to the retirement benefit schemes charged to the consolidated statement of profit or loss and other comprehensive income is HK\$4,803,000 (2017: HK\$5,350,000).

33. CAPITAL COMMITMENTS

	2018 HK\$'000	2017 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– plant and equipment	4,491	18,003
– buildings	6,341	5,988
	<u>10,832</u>	<u>23,991</u>

34. OPERATING LEASES

The Group as lessee

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

	2018 HK\$'000	2017 HK\$'000
Within one year	2,522	2,254
In the second to fifth year inclusive	9,895	8,640
After five years	22,081	21,600
	<u>34,498</u>	<u>32,494</u>

Leases are negotiated and rentals are fixed for an average term of two years (2017: two years). One of the leases has a term of twenty years.

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34. OPERATING LEASES – *continued*

The Group as lessor

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

	2018 HK\$'000	2017 HK\$'000
Within one year	2,759	3,397
In the second to fifth year inclusive	2,842	1,389
After five years	463	266
	<hr/> 6,064 <hr/>	<hr/> 5,052 <hr/>

The properties held have committed tenants for periods of up to ten years (2017: ten years).

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 net debts, which includes amounts due to directors, obligations under finance leases and secured bank borrowings, disclosed in respective notes, pledged bank deposits, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and the issue of new debts.

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36. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000
Financial assets		
Financial assets at amortised cost	497,620	N/A
Loans and receivables (including cash and cash equivalents)	N/A	444,386
Financial liabilities		
Amortised cost	567,147	486,280

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to directors and secured bank borrowings. Details of these 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 manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 22% (2017: 23%) and 61% (2017: 47%) of the Group's sales and purchases, respectively, are denominated in currencies other than the functional currencies of the group entities making the sale and the purchase.

Several subsidiaries of the Company have foreign currency bank balances, trade and other receivables, trade and other payables and secured bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

36. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

Currency risk – continued

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2018 and 2017 are as follows:

	Assets		Liabilities	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
USD	40,726	33,790	50,388	98,977
HK\$	403	1,412	–	–
RMB	47,265	13	–	–
	88,394	35,215	50,388	98,977

In addition, the Group is also exposed to foreign currency risk arising from intra-group loans/trading transactions denominated in HK\$ involving PRC entities whose functional currency is RMB. The foreign currency denominated net monetary assets in relation to these intra-group balances amounted to approximately HK\$273,127,922 (2017: HK\$190,390,000). The Group has not formulated a policy to hedge the foreign currency risk.

The Group is mainly exposed to fluctuation in exchange rate of RMB against HK\$ and USD. Exposures on balances which are denominated in USD in group companies with HK\$ as functional currency, are not considered significant as HK\$ is pegged to USD. The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of RMB (functional currency of the relevant group companies) against HK\$ and USD while all other variables are held constant. The sensitivity analysis includes outstanding foreign currency denominated monetary items including external loans in USD as well as intra-group loans/trading transactions denomination in HK\$ involving the PRC entities whose functional currency is RMB. A positive number below indicates a decrease in loss for the year where RMB weakens against HK\$ and USD. For a 5% strengthening of RMB against HK\$ and USD, there would be an equal and opposite impact on the loss for the year and the balances below would be negative.

Notes to the Consolidated Financial Statements

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36. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

Currency risk – continued

	2018	2017
	HK\$'000	HK\$'000
RMB against HK\$	10,242	7,140
RMB against USD	(872)	(1,632)

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.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable rate secured bank borrowings (see note 28). In relation to these variable rate secured bank borrowings, the Group currently does not have policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the variable rate secured bank borrowings at the end of the reporting period. A 100 basis points (2017: 100 basis points) increase or decrease in interest rates is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 100 basis points (2017: 100 basis points) higher and all other variables held constant, the potential effect on profit (loss) for the year is as follows:

	2018	2017
	HK\$'000	HK\$'000
Decrease in profit (2017: increase in loss) for the year	1,902	1,992

For decreasing interest rate of 100 basis points, there would be an equal and opposite impact on the profit (loss) for the year.

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

Notes to the Consolidated Financial Statements

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36. FINANCIAL INSTRUMENTS – *continued*

Financial risk management objectives and policies – *continued*

Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade and other receivables, contract assets, pledged bank deposits and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of each reporting period. As at 31 December 2018, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

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 uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed every year. 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. Before application of HKFRS 9, the Group performs impairment assessment under incurred loss model on trade balances. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2018, the Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 88% (2017: 88%) of the total trade receivables and contract assets.

At 31 December 2018, the Group has concentration of credit risk on trade receivables and contract assets as 10.3% (2017: 15.9%) of the total trade receivables and contract assets was due from the Group's largest debtor within the PVC pipes and fittings segment.

Upon adoption of HKFRS 9 on 1 January 2018, the Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables and contract assets.

Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of HK\$198,776,000 and HK\$115,065,000 respectively with loss allowances of HK\$310,000 and HK\$115,065,000 respectively as at 31 December 2018 were assessed individually.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The Group's internal credit risk rating comprises the following categories:

Low:	The customer has a low risk of default and does not have any past-due amounts
Medium:	The customer regularly repays on time but sometimes settles after due date
High:	The customer frequently repays after due dates but usually settles after due date

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36. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Credit risk and impairment assessment – continued

The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit-impaired).

	Gross carrying amount HK\$'000	Net Average loss rate %	Loss allowance HK\$'000	Carrying amount HK\$'000
Internal credit rating				
Low	128,841	0.26	335	128,506
Medium	8,751	2.95	258	8,493
High	26,420	7.31	1,931	24,489
	<u>164,012</u>		<u>2,524</u>	<u>161,488</u>

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. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

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36. FINANCIAL INSTRUMENTS – continued

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 receivables and contract assets under the simplified approach.

	Lifetime ECL (not credit- impaired) HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	Total HK\$'000
As at 31 December 2017 under HKAS 39 and 1 January 2018 under HKFRS 9	–	106,620	106,620
Impairment losses recognised	2,963	14,412	17,375
Currency realignment	(129)	(5,967)	(6,096)
	<hr/>	<hr/>	<hr/>
As at 31 December 2018	2,834	115,065	117,899

The Group writes off a trade receivable and contract assets 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 receivables are over two years past due, whichever occurs earlier.

In determining the ECL for other receivables, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding other receivables is insignificant.

The management of the Group considers the pledge bank deposits, short-term bank deposits and bank balances that are deposited with the financial institutions with good credit rating to be low credit risk financial assets. The management of the Group considers the bank balances are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, loss allowance was considered as insignificant.

Notes to the Consolidated Financial Statements

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36. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

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 monitors the utilisation of secured bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its 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 loans 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 financial liabilities are based on the agreed repayment dates.

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

Liquidity and interest risk tables

	Weighted average effective interest rate per annum %	On demand or less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amounts HK\$'000
Financial liabilities							
As at 31 December 2018							
Trade and other payables	–	117,637	43,475	35,652	–	196,764	196,764
Amounts due to directors	2.90	64,830	–	–	70,252	135,082	135,082
Secured bank borrowings – variable rate	3.93	161,269	37,883	37,108	–	236,260	235,301
Obligations under finance leases	4.91	350	700	1,240	1,334	3,624	3,468
		344,086	82,058	74,000	71,586	571,730	570,615
As at 31 December 2017							
Trade and other payables	–	106,198	53,463	25,214	–	184,875	184,875
Amounts due to directors	2.90	45,600	–	–	–	45,600	45,600
Secured bank borrowings – variable rate	3.60	185,452	21,747	50,308	–	257,507	255,805
Obligations under finance leases	5.05	350	700	3,149	3,624	7,823	7,398
		337,600	75,910	78,671	3,624	495,805	493,678

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36. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity and interest risk tables – continued

Bank loans with a repayment on demand clause are included in the “on demand or less than 1 month” time band in the above maturity analysis. At 31 December 2018, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$161,269,000 (2017: HK\$185,061,000). 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 such bank loans will be repaid from two to ten years (2017: two to ten years) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK\$166,787,000 (2017: HK\$195,569,000).

For the purpose of managing liquidity risk, the management reviews the expected cash flow information of the Group’s variable rate bank loans based on the scheduled repayment dates set out in the loan agreement as set out in the table below:

	Weighted average interest rate per annum %	Less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amounts HK\$'000
Variable rate bank loans								
As at 31 December 2018	3.85	34,718	55,585	33,182	37,420	5,882	166,787	161,269
As at 31 December 2017	3.58	31,062	45,383	48,336	62,439	8,349	195,569	185,061

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

Fair value of financial instruments

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

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37. MOVEMENT ON GROUP'S 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.

	Interest payables HK\$'000	Amounts due to directors HK\$'000	Secured bank borrowings HK\$'000	Obligations under finance leases HK\$'000	Total HK\$'000
At 1 January 2017	–	49,623	325,287	9,086	383,996
Financing cash flows (Note)	(15,106)	(4,023)	(78,235)	(3,548)	(100,912)
Purchase of property and equipment through finance leases	–	–	–	1,860	1,860
Currency realignment	–	–	8,753	–	8,753
Finance costs recognised	15,459	–	–	–	15,459
At 1 January 2018	353	45,600	255,805	7,398	309,156
Financing cash flows (Note)	(12,640)	19,230	(16,538)	(3,930)	(13,878)
Currency realignment	–	–	(3,966)	–	(3,966)
Finance costs recognised	17,087	–	–	–	17,087
At 31 December 2018	4,800	64,830	235,301	3,468	308,399

Note: The financing cash flows represented the bank loans raised, advance from directors, net change in bank overdrafts, trust receipts and import loans, repayments of bank loans and obligations under finance leases, repayments to directors and payment of finance costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

38. PLEDGE OF ASSETS

At the end of the reporting period, the Group's secured borrowings were secured by the following assets:

	2018 HK\$'000	2017 HK\$'000
Investment properties	23,200	21,300
Leasehold land and buildings	132,940	140,106
Prepaid lease payments	11,261	25,591
Pledged bank deposits	7,558	20,602
	<u>174,959</u>	<u>207,599</u>

In addition, the Group also pledged the life insurance policy to a bank to secure general banking facilities granted to the Group (see note 17).

39. RELATED PARTY TRANSACTIONS

(a) 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	20,227	20,527
Post-employment benefits	73	91
	<u>20,300</u>	<u>20,618</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

- (b) During the year ended 31 December 2018, Joy Tower Limited, a related party of the Group, provided its residential property to secure one of the Group's banking facilities amounting to HK\$81,315,000 (2017: HK\$87,195,000). Approximately HK\$65,826,000 (2017: HK\$69,476,000) was utilised in respect of this banking facility as at 31 December 2018.

Mr. Lee Tat Hing and his spouse, Ms. Fung Mei Po, the directors and controlling shareholders of the Company, are directors and controlling shareholders of Joy Tower Limited.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

39. RELATED PARTY TRANSACTIONS – continued

- (c) During the year ended 31 December 2018, the Group paid interest expenses on the amount due to a director of the Company, Ms. Fung Mei Po, amounted to HK\$1,213,000 (2017: HK\$1,379,000).

40. NON-CASH TRANSACTION

During the year ended 31 December 2017, the Group entered into finance leases in respect of motor vehicles with total value of HK\$1,860,000 (2018: nil) at the inception of the finance leases.

During the year ended 31 December 2018, deposits paid for acquisition of property, plant and equipment amounting to HK\$9,423,000 (2017: HK\$3,781,000) was transferred to property, plant and equipment upon completion of installation of certain plant and machinery.

41. PRINCIPAL SUBSIDIARIES

The details of principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest held by the Company				Principal activities
			Directly		Indirectly		
			2018	2017	2018	2017	
Action Land Limited	Hong Kong – limited liability company	HK\$6,000,000	-	-	100%	100%	Provision of transportation services
Greatflow Investments Limited	British Virgin Islands (“BVI”) – limited liability company	USD1	-	-	100%	100%	Property holding
Nam Sok Building Material & Plastic Products (Changshu) Co., Ltd.*	PRC – wholly foreign owned enterprise	USD15,806,000	-	-	100%	100%	Manufacturing of PVC pipes and fittings and moulds
Nam Sok Building Material & Plastic Products (Shenzhen) Co., Ltd.*	PRC – wholly foreign owned enterprise	HK\$230,000,000	-	-	100%	100%	Manufacturing of PVC pipes and fittings and moulds
South China Plastic Building Material Manufacturing Limited	Hong Kong – limited liability company	HK\$2	-	-	100%	100%	Trading in building materials and supplies
South China Reborn Resources (Zhongshan) Company Limited*	PRC – wholly foreign owned enterprise	USD11,910,000	-	-	100%	100%	Manufacturing of household products and operating recycling and reborn resources related business
Welidy	Hong Kong – limited liability company	HK\$10,000	-	-	100%	100%	Property holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

41. PRINCIPAL SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest held by the Company				Principal activities
			Directly		Indirectly		
			2018	2017	2018	2017	
World Home Linen Manufacturing Company Limited	Hong Kong – limited liability company	HK\$200 Deferred non-voting shares HK\$10,000 (Note a)	-	-	100%	100%	Property holding
World Houseware (B.V.I.) Limited	BVI – limited liability company	HK\$50,000	100%	100%	-	-	Investment holding
World Houseware Producing Company Limited	Hong Kong – limited liability company	HK\$200 Deferred non-voting shares HK\$160,500 (Note b)	-	-	100%	100%	Trading in household products
World (Baoan)*	PRC – wholly foreign owned enterprise	HK\$360,000,000	-	-	100%	100%	Manufacturing of household products
World Plastic-ware Manufacturing Limited	Hong Kong – limited liability company	HK\$32,500,000	-	-	100%	100%	Investment holding
South China Reborn Resources (Hong Kong) Company Limited	Hong Kong – limited liability company	USD10,000	-	-	100%	100%	Operating recycling and reborn resources related business

* The English name is translated for identification purpose only.

Notes:

- (a) None of the deferred non-voting shares are held by the Group.
- (b) The deferred non-voting shares are held by Welidy.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All the subsidiaries operate in their respective places of incorporation/registration except Welidy which holds properties in the PRC, Greatflow Investments Limited which holds properties in Hong Kong and World Houseware (B.V.I.) Limited which operates in Hong Kong.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

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42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK\$'000	2017 HK\$'000
Non-current assets		
Investments in subsidiaries	55,139	55,139
Amounts due from subsidiaries	50,000	50,000
	105,139	105,139
Current assets		
Prepayment	75	–
Amounts due from subsidiaries	314,531	317,439
Bank balances and cash	137	128
	314,743	317,567
Current liability		
Accrued expenses	2,577	2,490
Net current assets	312,166	315,077
Non-current liability		
Amount due to a director	70,252	–
Net assets	347,053	420,216
Capital and reserves		
Share capital	76,432	76,332
Reserves (Note)	270,621	343,884
Total equity	347,053	420,216

Note:

	Share premium HK\$'000	Special reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017	341,251	8,917	11,467	(15,308)	346,327
Loss and total comprehensive expense for the year	–	–	–	(3,624)	(3,624)
Exercise of share options	2,050	–	(869)	–	1,181
At 31 December 2017	343,301	8,917	10,598	(18,932)	343,884
Loss and total comprehensive expense for the year	–	–	–	(73,472)	(73,472)
Exercise of share options	358	–	(149)	–	209
Release of lapsed of share options	–	–	(492)	492	–
At 31 December 2018	343,659	8,917	9,957	(91,912)	270,621

Financial Summary

RESULTS

	For the year ended 31 December				2018 HK\$'000
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	
Turnover	991,514	993,965	855,195	914,020	926,232
(Loss) profit before taxation	(41,794)	(25,776)	(12,490)	(93,599)	1,405,033
Taxation	(7,094)	(15,788)	(14,060)	(19,967)	(238,156)
(Loss) profit for the year	(48,888)	(41,564)	(26,550)	(113,566)	1,166,877
(Loss) profit attributable to owners of the Company	(48,884)	(41,564)	(26,550)	(113,566)	1,166,877
Non-controlling interests	(4)	–	–	–	–
(Loss) profit for the year	(48,888)	(41,564)	(26,550)	(113,566)	1,166,877

ASSETS AND LIABILITIES

	At 31 December				2018 HK\$'000
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	
Total assets	1,507,447	1,481,687	1,365,495	1,403,430	2,763,414
Total liabilities	(620,730)	(662,492)	(630,541)	(702,257)	(960,111)
	886,717	819,195	734,954	701,173	1,803,303
Equity attributable to owners of the Company	886,739	819,195	734,954	701,173	1,803,303
Non-controlling interests	(22)	–	–	–	–
	886,717	819,195	734,954	701,173	1,803,303