* For identification purpose only

ANNUAL REPORT

2018

WINSHINE
瀛晟科學

Winshine Science Company Limited

瀛 晟 科 學 有 限 公 司 *

(Incorporated in Bermuda with limited liability)

Stock Code: 209

CONTENTS

ABBREVIATIONS

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

"Board"	the Board of Directors of the Company
"Company"	Winshine Science Company Limited
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, for the purpose of this report, excluding Hong Kong, Macau and Taiwan
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$" and "HK cents"	Hong Kong dollars and cents
"RMB"	Renminbi
"US$"	United States dollars
"%"	per cent.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Deyong *(Chairman)*
(appointed on 16 May 2019)
Mr. Liu Michael Xiao Ming *(Chief Executive Officer)*
(appointed on 10 May 2019)
Mr. Luo Lianjun
(appointed on 10 May 2019)
Mr. Xing Wei *(Chairman)*
(removed on 10 May 2019)
Mr. Wei Guo *(Chief Executive Officer)*
(removed on 10 May 2019)

Non-executive Director

Mr. Lin Shaopeng

Independent Non-executive Directors

Mr. Kwok Kim Hung Eddie
(appointed on 7 March 2019)
Mr. Ng Wai Hung
(appointed on 21 May 2019)
Ms. Shi Xiaolei
(appointed on 21 May 2019)
Mr. Li Fang
(resigned on 7 March 2019)
Mr. Lau Shun Pong Johnson
(resigned on 10 April 2019)
Mr. Lai Ming Wai
(resigned on 11 April 2019)

AUDIT COMMITTEE

Mr. Kwok Kim Hung Eddie *(Chairman)*
Mr. Ng Wai Hung
Ms. Shi Xiaolei

REMUNERATION COMMITTEE

Ms. Shi Xiaolei *(Chairman)*
Mr. Kwok Kim Hung Eddie
Mr. Ng Wai Hung

NOMINATION COMMITTEE

Mr. Ng Wai Hung *(Chairman)*
Mr. Kwok Kim Hung Eddie
Ms. Shi Xiaolei

COMPANY SECRETARY

Mr. Lau On Kwok
(resigned on 13 November 2018)
Mr. Shoom Chin Wan
(appointed on 10 December 2018 and resigned on 7 March 2019)
Mr. Yip Chun Chung
(appointed on 7 March 2019)

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 209)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2202–2203, 22/F.
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications Co. Ltd. Hong Kong Branch
Guangdong Development Bank Zhongshan Branch

AUDITOR

Moore Stephens CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th floor North, Cedar House,
41 Cedar Avenue, Hamilton HM 12,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East,
Hong Kong

WEBSITE

http://www.winshine.com
http://www.tricor.com.hk/webservice/000209

CHAIRMAN'S STATEMENT

Dear follow shareholders:

The board (the "Board") of directors (the "Directors") of Winshine Science Company Limited (the "Company") herein presents the audited annual results of the Company and its subsidiaries (together, the "Group") for the financial year ended 31 December 2018. The Group mainly engages in the existing businesses of manufacturing and trading of toys, securities investment and research and development in medical and health products.

We had a challenging year in 2018 as the Group's equity position was further eroded by the losses from a significant asset impairment due to the legacy issues that we had to resolve to meet the accounting rules and prepare for a more profitable future. In addition, our toys division continues to face headwinds as intense industry competition and trade wars render the business less profitable.

PROSPECTS

The Company is having significant changes in the year 2019 in terms of board of directors and the financial statements. The board of directors were all newly appointed in the year 2019 and the new board immediately implemented policies to set the Company in a right direction. The new board is looking for different business opportunity to diversify our principal business activities. Cost cutting measures were put in place to reduce operating costs. The Board appointed an independent investigator to look into the allegations made by previous auditor and determine the appropriate action to follow up. The new Board engaged an independent consultant to review and eliminate potential internal control weakness. On our financial statements, the Company cleared long outstanding debt and obtained new extension of loans to give the Company a better financial position to meet the future challenge.

The toys division is expected to continue to perform satisfactorily. Due to the trade conflict between the US and China, and the related customs duty increase, customers are cautious to place orders. Besides, customers are actively looking for productions bases outside China to alleviate the possible tariffs and possible lower cost of production. Those trends may cause extreme pressure on product margins and turnover, in particular the first half in 2019. However, stabilized RMB and lower material cost will be favorable in 2019.

Looking forward, we are cautiously optimistic as our toys division continues to perform successfully in the marketplace and the new Board sets to start to explore new business opportunity on a much lower management cost.

Zhao Deyong
Chairman

BUSINESS OVERVIEW

For the financial year ended 31 December 2018 ("FY 2018"), the Group recorded revenue of HK$636.9 million, representing an increase of 8% from the revenue of HK$589.9 million for the year ended 31 December 2017 ("FY 2017"). The increase was mainly due to the performance of our toy's division. Gross profit for the year amounted to HK$69.7 million, down by 20% compared with that of HK$87.6 million in FY 2017 as a result of keen competition and increase in labor cost.

The securities investments division recorded a loss of HK$10.0 million in FY 2018, compared with HK$7.0 million in FY 2017, representing an increase of losses of 43% year-on-year.

For the FY 2018, the Group increased its net loss by 98% to HK$153.6 million compared with HK$77.7 million in FY 2017. The main reason for the loss increase was the impairment of assets of HK$103.9 million during the FY 2018 as discussed below. In addition information regarding the disclaimer of audit opinion.

The following will discuss each of the sections of the Group.

Toys Division

For the year ended 31 December 2018, revenue of the toys division increased by 8% to HK$636.9 million as a result of continued popular product series developed and marketed by one of our major customers. However, as the intense competition in the industry resulted in lower margins, increment on minimum wages and unfavorable exchange rate for the RMB, the production cost increased and gross profit decreased to HK$69.7 million (compared to 2017's HK$87.6 million). As the headwinds mentioned above, the toys division decreased reported segment profit after taxation at HK$4.2 million for 2018 (2017: HK$5.6 million).

Securities Investments Division

During the year, the Hong Kong stock market experienced a significant downturn, as factors such as China-US trade war, US interest rate hike and uncertainty about Brexit all caused huge volatility. The Group adopted a conservative strategy in managing its investment portfolio during the year. The securities investments division recorded a HK$10 million loss, representing a 68.9% increase as compared with FY 2017. At the end of FY 2018, the Group securities portfolio was valued at HK$17.6 million (FY 2017: HK$27.6 million). The Group did not receive any dividend income in both FY 2018 and FY 2017.

Breakdown of the Group's significant investments held as at 31 December 2018

Stock Code	Name	Principal businesses	Market value as at 31/12/2018 *HK$'000*	Number of shares held as at 31/12/2018	Percentage held to the total issued share capital of the stock	Gain/(loss) on change of fair value during the year ended 31/12/2018 *HK$'000*
928	Life Healthcare Group Ltd. (Previously known as Tack Fiori International Group Ltd.)	Development and marketing of education software products and the provision of technology support services in China; sales of apparels in China; and trading and investment of securities in Hong Kong.	7,509	63,104,000	1.20%	(9,213)
8316	Pak Wing Group (Holdings) Ltd.	Provision of foundation works in Hong Kong.	689	1,530,000	0.19%	(1,989)
8356	CNC Holdings Ltd.	Provision of waterworks engineering services for public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding PRC) and large outdoor display screen advertisement business in the PRC.	8,120	124,930,000	3.08%	1,624
	Others		1,262	–	–	(421)
Total			**17,580**			**(9,999)**

Breakdown of the Group's significant investments held as at 31 December 2017

Stock Code	Name	Principal businesses	Market value as at 31/12/2017 *HK$'000*	Number of shares held as at 31/12/2017	Percentage held to the total issued share capital of the stock	Gain/(loss) on change of fair value during the year ended 31/12/2017 *HK$'000*
928	Life Healthcare Group Ltd. (Previously known as Tack Fiori International Group Ltd.)	Development and marketing of education software products and the provision of technology support services in China; sales of apparels in China; and trading and investment of securities in Hong Kong.	16,723	63,104,000	1.20%	7,004
8316	Pak Wing Group (Holdings) Ltd.	Provision of foundation works in Hong Kong.	2,678	1,530,000	0.19%	597
8356	CNC Holdings Ltd.	Provision of waterworks engineering services for public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding PRC) and large outdoor display screen advertisement business in the PRC.	6,495	124,930,000	3.08%	(14,617)
	Others		1,683	–	–	–
Total			**27,579**			**(7,016)**

Medical and Health Division

During the year, the Group continued its medical research project by investing in Success Impact Corporation. The project was mainly about the preclinical research studies of genetically engineered bacteria for targeted cancer therapy ("Project GEB"). A total of approximately HK$2.0 million (2017: HK$6.4 million) on research and development expenses were recorded in the Project GEB.

Further efforts and more research studies will be needed to improve the specificity of the bacteria-based treatment and its antitumor efficacy.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

Due to the classification of the Group's borrowing as current liability discussed immediately below, at the end of FY 2018, the Group had net current liabilities of HK$70,363,000 (FY 2017: Net current asset of HK$47,708,000) comprising cash and cash equivalents of HK$75,489,000 (FY 2017: HK$131,523,000) (excluding pledged bank deposits).

On 31 December 2018, all borrowings totalling HK$160,422,000 (2017: HK$184,622,000) would mature within one year, out of which all bore fixed interest rate and none bore floating interest rate. However, following the end of 2018, the Group has extended HK$45,000,000 debt maturity to September 2020, and therefore its net current assets position has returned positive at HK$25,363,000.

The equity attributable to shareholders of the Company decreased by 51% to HK$164,337,000 (2017: HK$333,168,000) mainly as a result of the impairment loss incurred by the Group during the year. The Group financed its operations through a combination of debt financing and shareholder's equity. The Group's gearing ratio was determined as its net debt divided by total equity plus net debt where net debt included borrowings, trade and bills payables and other payables and accruals less pledged bank deposits and cash and cash equivalents. The gearing ratio of the Group at 31 December 2018 was 61% (2017: 43%).

Despite the loss incurred by the Group and the net current liabilities status at the end of 2018, the financial position of the Group remains healthy with the loan extensions obtained after the financial year ended, and the Group has sufficient cash to support the Group's ongoing business operations.

During the year, the Group made a one-off HK$103,900,000 impairment in the receivables and assets of Yi Nuo Technology (Suzhou) Limited, a wholly owned subsidiary since 2016. The reason for the impairment was mainly attributable to the need to comply with applicable accounting rules as the relevant receivables were long overdue and relevant assets became obsolete. In addition, it is the management position that those receivables recovery is questionable in the best circumstances. The management nevertheless is actively engaged in recovering relevant receivables. The assets written off in the year will not have any forward impact on the Group financial statements.

The new management team is more closely aligned with our shareholders as can be seen from the actions taken so far to redirect the Company toward a better internal control, resolution of the legacy issues, and a substantial reduction of the management cost.

Looking forward, the key to the Company's successes lies in a continued improvement of the profitability of our toys business and, more importantly, re-deployment of our energy and assets in high growth and more profitable businesses. We are confident that we stand a good chance in those endeavors.

Michael Liu
CEO

ADDITIONAL INFORMATION REGARDING THE DISCLAIMER OF AUDIT OPINION

As disclosed in the paragraph headed "Basis for Disclaimer of Opinion" in the independent auditors' report on the consolidated financial statements of the Group for the year ended 31 December 2018 (the "Independent Auditors' Report"), the auditors of the Company, Moore Stephens CPA Limited, does not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2018.

The matters which gave rise to such disclaimer of opinion related to (1) scope limitations concerning the Group's deposit paid for refurbishment of properties and other receivables; and (2) scope limitation on inability to obtain sufficient appropriate audit evidence concerning certain transactions and loans made by a subsidiary of the Group.

The Audit Committee has reviewed and agreed with the Audit Qualification. At the Board meeting held immediately after the meeting of the Audit Committee held on 30 October 2019, the Audit Committee reported to and discussed with the Board on the Audit Qualification. The Board provided response to the Audit Qualification and the Audit Committee concurred with the management. The management and the Audit Committee have the following opinions on the matters which gave rise to the disclaimer of opinion for the year ended 31 December 2018.

(1) Scope limitations concerning the Group's deposit paid for refurbishment of properties and other receivables

As disclosed in the announcement of the Company dated 23 April 2019, since Nanjing Sanyou Real Estate Company Limited* (南京三友置業有限公司) ("Nanjing Sanyou" or the "Purchaser") is not in a position to proceed to complete the acquisition of Yi Nuo Technology (Suzhou) Company Limited (an indirect wholly-owned subsidiary of the Company, ("Yi Nuo")), Billion Pride Group Limited (a wholly-owned subsidiary of the Company, ("Billion Pride")) and Nanjing Sanyou had entered into a termination agreement (the "Termination Agreement"), pursuant to which the parties have agreed to terminate the disposal agreement signed on 28 December 2017 with immediate effect. The main assets of Yi Nuo are a parcel of land, the deposit paid for refurbishment of properties in Suzhou, Jiangsu Province, the PRC and the other receivable.

In view of the significant uncertainty on the recoverability of the other receivables and the Group has no intention to continue the medical and health business, the management considered the recoverable amount of the deposit paid for refurbishment of properties and the other receivables to be zero and it would be appropriate for the Group to make an impairment of approximately HK$64.6 million and HK$39.3 million for the year ended 31 December 2018 respectively. In order to reduce the loss incurred, the management is currently negotiating with the one of the Vendors for RMB10.0 million settlement of all the outstanding other receivable.

The Audit Committee is of the view that it is prudent to make full impairment on the deposit paid for refurbishment of properties and other receivables.

In the above circumstances, the full impairment losses have been made in the year ended 31 December 2018 in respect of the deposit paid for refurbishment of properties and other receivable due to their recoverable amounts were in doubt, and hence the Company expects that disclaimer relating to the Auditors' opinion on this issue will be removed in the next year's audit except for the effect on comparability of corresponding figures.

Please refer to the announcement of the Company dated 28 December 2017 and the circular of the Company dated 31 May 2018 for details of the disposal of Yi Nuo.

(2) Scope limitation on inability to obtain sufficient appropriate audit evidence concerning certain transactions (the "Transactions") and loans (the "Loans") made by a subsidiary of the Group.

The auditors were unable to perform sufficient appropriate audit procedures to satisfy themselves regarding the nature and reasons for the making the short-term fund advance arrangements under the Transactions and the Loans, and whether any related parties of the Group was involved in the transactions given the influence and involvement of an individual who was a director of the Company (the "Ex-Director"). As disclosed in the announcement of the Company dated 6 May 2019, a direct confirmation from a debtor was received by the then auditors in March 2019 which indicated that the Transactions involved the Ex-Director were not reflected in the books and records of a subsidiary of the Group.

In regards of the Transactions and Loans, the Company established a special investigation committee (the "SIC") comprising an executive director and 2 independent non-executive directors on 18 May 2019 and engaged FTI Consulting (Hong Kong) Limited ("FTI Consulting") with the purposes of investigating (i) the Transactions and Loans and (ii) identifying if there are any other similar fund transfer arrangements (the "Independent Investigation"). The SIC also engaged an internal control consulting firm (the "Internal Control Adviser") to assess and conduct a review of the internal control systems and procedures of the Group and selected subsidiaries of the Company, and to make recommendations accordingly (the "Internal Control Review").

The management, the SIC and the Audit Committee have reviewed the reports prepared by FTI Consulting and the Internal Control Adviser. They concluded that the Transactions were made with the intention to pursue business opportunities for the Group and the Loans made by a subsidiary are primarily attributable to a weak internal control mechanism of the Group. The management has taken up the recommendations from the Internal Control Adviser to remedy the internal control system and procedures in order to avoid any future situations. The SIC and the Audit Committee are of the view this Audit Qualification have been duly dealt with given that (i) the amount relating to the service fee had been recognised in the profit or loss for the year ended 31 December 2018 and the remaining amounts from the Transactions and Loans were refunded or repaid to the Group subsequently after the year ended 31 December 2018 (as disclosed in note 24 to the consolidated financial statements); (ii) the Group did not suffer substantial loss as a result of the Transactions and Loans; (iii) the relevant personnel of the Transactions and Loans concerned have already left the Group; and (iv) the Company has put in the place adequate internal control system and procedures as recommended by the Internal Control Adviser. In the above circumstances, the Company expects that disclaimer relating to the Auditors' opinion on this issue will be removed in the next year's audit except for the effect on comparability of corresponding figures.

Key findings of the Independent Investigation and the Internal Control Review are summarised in the announcement of the Company dated 30 October 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

The Group has longed for the pursuit of sustainable development by incorporating environmental and societal initiatives into business and to enhance its competitiveness within the industry. To demonstrate the Group's continuous improvement on Environmental, Social and Governance ("ESG"), as a result, the Board is pleased to publish the third ESG Report (the "Report").

The Report complies with the requirements of the ESG Reporting Guide stated in Appendix 27 of the Listing Rules. The Group reports its commitments and practices on the ESG performance for the year ended 31 December 2018 (the "Reporting Period"). The scope of the ESG Report mainly covers the division in Zhongshan, PRC.

COMMUNICATION WITH STAKEHOLDERS

The Group knows it is sufficiently important to understand stakeholders needs and expectations. As a result, stakeholders' opinion can help the Group identify as well as prioritize material aspects whereby there are many communication channels have been set up to engage different stakeholders on a regular basis.

	Communication Channels	**Major Stakeholders**
1	Meetings	Investors, Customers, Regulators, Suppliers, Directors, Management, and Employees
2	Reports	Investors, Customers, and Regulators
3	Announcements (Circulars, Memos, emails etc.)	Investors, Employees, and Suppliers
4	Company's website	Investors, Customers, Organization, Regulators, Suppliers, employees, and the public
5	Phone calls	Customers and supplies
6	Surveys	Customers and Employees
7	Site visits	Customers, Regulators, and Suppliers
8	Seminars	Industrial Organization
9	Company Events (Annual dinners, volunteer service etc.)	Directors, Management, and Employees

ENVIRONMENT

Sustainability is a key to success. Striving to that aim, the Group established an Environmental Management Committee overseeing its environmental performance, formulating environmental initiatives, and minimizing environmental risks. First and foremost, the Group is aware that it had complied with all environmental laws and regulations and prohibited to the utmost of all relevant illegal and violating activities. Yet, for the year ended 31 December 2018, there was one environmental noncompliance in Zhongshan where the hazardous waste did not bear an appropriate label on the container. Immediate corrective action was completed accordingly.

Second, the Group attaches great importance to environmental threats and impacts caused directly and indirectly by the business with careful assessment and monitoring. Besides, the Group upgraded the ISO 14001 standard and referred it to set up an environmental management system on site. Last but not least, the Group continuously improves its environmental performance and closely works with relevant authorities in the wake of tightening national environmental legislation and management towards the manufacturing industry.

EMISSIONS

Greenhouse Gases (GHG) Emission

Greenhouses gases emission has been in the limelight recently. This has called the attention of the Group and led it to keep a close eye on the GHG emission. In fact, the Group has collected its GHG emission since 2017. The major source of GHG emission of the Group is from purchased electricity and company vehicles. For information on energy saving measures and waste management, please refer to the section of "Use of Resources". It is so encouraging to see a downward trend, a decreased by 9.37%, in total GHG emissions in 2018 when compared to the same period in 2017.

Indicator	Units	Total emissions in 2018
Total GHG emissions (scope 1 and 2)	CO_2e tonnes	7,320.63
Scope 1	CO_2e/piece	130.84
Scope 2	CO_2e/piece	7,189.79
Intensity (Scope 1 & 2) per number of production volume	Kg CO_2e/piece	0.00037

Exhaust Gas Emission

In addition, volatile organic compounds (VOCs) release is another concern that captures the Group's as well as the stakeholders' attention. Manufacturing toys inevitably use paints and did emit VOCs in certain contexts. This poses harm to human, especially children and babies are susceptible to it. As a result, the Group has deployed water-based paints and environmentally friendly paints with low VOCs content, but also, Phase II VOCs emission performance improvement project was initiated, inventing a VOC removal system with activated carbon absorber to ensure VOCs released to the atmosphere is far ahead of the legal requirements which are verified by registered testing agency. The system is also connected to the Ministry of Environmental Protection of the PRC to monitor emissions. Corrective actions will be made in response to the abnormal situations if any. Above all, the Group has installed ventilation systems to remove or dilute indoor air pollutants to further enhance the air quality of the site.

Transportation is also a concern when the Group comes across the issue of air pollution. The Group, therefore, encourages the use of car-pooling and commonly use of public transits to employees. The air pollutants emission slightly increased in 2018 because of more transportation needs.

Indicator	Unit	Total emission in 2018
Nitrogen Oxides (NO_x)	g	60,130
Sulfur Oxides (SO_x)	g	845
Particulate Matter (PM)	g	5,550

USE OF RESOURCES

Waste Management and Packaging Materials

The Group realizes its business consumes a considerable amount of natural materials. Prior planning to estimate all the way from an input of raw materials to the end products plays a vital role in waste reduction, ensuring a reliable and stable quality as well. One of the measures to help regulate waste disposal is the adaptation of 3R (Reduce, Reuse and Recycle) approach in operation. The Group endeavours to reduce waste by implementing different waste measures. For instance, over the years, the Group recycled and reused plastics, single-used waste paper and cardboards, replaced plastics to the maximum of papers, set duplex-printing as default, carried out an Enterprise Resources Planning (ERP) system in the office.

Besides, all waste is handled and sorted onsite by general waste and hazardous waste in accordance with the National Hazardous Waste List. They are stored in a designated container with covers in a designated area to avoid leakage and misuse. All hazardous waste such as organic solvent, compact fluorescent lamp, batteries and exhausted cartridges and toners are collected and reused by licensed contractors. In 2018, the total amount of non-hazardous waste decreased by 10.28% and increased dramatically by 39.30% for hazardous waste, compared to 2017. For hazardous waste, this was mainly due to the better performance on waste sourcing. And the licensed contractor ceased its operation in 2017 and result in the hazardous waste were collected in 2018.

Indicator	Total disposal in 2018	Percentage when compared to 2017
Non-hazardous waste	32.30 Tonnes	–10.28%
Hazardous waste	27.86 Tonnes	39.30%

In the concern of packaging materials, the Group proactively communicates with clients as well as suppliers to discuss any possibilities to minimize packaging although it is not a significant environmental aspect of the Group. However, a small portion of packaging material is unavoidable and use it on demand. This year, the Group started to record its packaging plastic materials for better understanding of the situation on plastic use.

Category of Packaging Materials	Total discharge in 2018	Percentage when compared to 2017
Plastics	3,300 Tonnes	NA
Paper boxes	3.2 Tonnes	–0.06%

Energy Consumption

Energy is a key component of daily life and all energy the Group acquired every day depends heavily on fossil fuels combustion which is exhaustible and non-renewable energy. In view of that, the Group makes its utmost to reduce energy consumption by different energy measures.

- Established a resources management procedure to regulate energy use;
- Turned off lighting, equipment and personal computer during non-office hours;
- Switched off idling engines and air-conditioners when not in use;
- Maintained air indoor room temperature at 24 to 26 Degree Celsius;
- Disseminated energy-saving message via emails;
- Replaced conventional lightings with LED;
- Purchased environmentally friendly equipment such as electric Rotomolded PVC machines;
- Procured equipment of video conferencing to reduce the need for business trips; and
- Adopted reusable energy such as solar water heaters in the dormitory.

Type of Energy	Total consumption in 2018	Percentage when compared to 2017	Intensity (per production volume)
Electricity	8,593,027 kWh	–2.88%	0.43 kWh/piece
Unleaded patrol	56,730 Litres	3.48%	0.003Litre/piece
Diesel	703 Litres	–92.86%	0.000035 Litre/piece

The total electricity consumption in the Reporting Period slightly decreased by 2.88% when compared with that in 2017. The overwhelming success in cutting down diesel consumption by 92.86% is because of adopting 20 electric rotomolded PVC machines.

Water Consumption

Due to the business nature, the Group does not entail a huge amount of potable water and it is a relatively less significant threat affecting the business. In 2018, the Group consumed 279,778 litres of water, which is 12.43% higher than that in 2017, due mainly to more water used in a new VOC removal system as a result of the higher water consumption. Yet it seems it rises the water consumption in exchange for lowering VOCs emission. Hence, the Group advocates a decrease in water consumption by combining two VOCs removal system in the coming years, centralizing all VOCs related production process in designated area.

The Group will continue to work diligently in implementing initiatives to save water, not limited to reducing the use of water by placing reminder near the water facilities to remind employees to save water. And, the Group will proactively seek opportunities to recycle and reuse water where possible. Condensers were installed in each work station to collect steam from the injection molding department. Moreover, the Group also owns and operates a water treatment plant and obtains a water discharge license to treat wastewater legally. The wastewater treatment plant was revamped in 2018 in hope of further managing the increasingly stringent discharge caps set out by the Government.

THE ENVIRONMENT AND NATURAL RESOURCES

Greening Coverage

Greening is a part of key components in building an environmentally friendly working environment. It brings many benefits such as enhancing air quality, alleviating urban heat island effect and eventually uplifting the quality of living. Greening reserves around 30% of the operating site coverage, planting varies kind of vegetation and trees. Further to boost greening and improve air quality in the operating site, small sized plants have been placed inside the office area.

Environmental Awards

With the support of many green measures, the Group proactively took part in the Cleaner Production Partnership Programme which is co-organized by the Environmental Protection Department and the Economic and Information Commission of Guangdong Province. It is the Group's honour to be awarded recognition of "Hong Kong - Guangdong Cleaner Production Excellent Partners (Manufacturing)" to recognize our conscientious efforts on adopting cleaner production technologies and practices with marked achievements.

Sustainability is now crucial to our daily life, our society and even our future generation, the Group could protect the earth by utilizing the natural resources and slowing down the pace of resources depletion as well as ecosystem degradation. These all require efforts across departments and organizations. Training sessions arranged to employees are indispensable. An environmental consultant is also employed to engage in monitoring and making a suggestion on areas for environmental improvement. The vegetarian and sustainable seafood menu is also given to employees to choose at the canteen.

SOCIAL

Employment

The Group acknowledges employees are the central importance. It drives the Group to build and maintain a harmonious, fair and safe working environment. More importantly, the Group endlessly strives to the room for enhancement in respect of social responsibility. The Group has established an employment policy based on the National Labour Law and updated the policy in a timely manner. The Group has also certified by ICTI CARE Foundation, to demonstrate its commitment to promoting safe and fair working conditions. During the Reporting Period, there was no case of non-compliance regarding compensation and dismissal, recruitment and promotion, equal opportunities, diversity, as well as discrimination.

Fair and equal employment and recruitment procedure are adopted in the Group. Any forms of discrimination are prohibited. Hence, recruitment is simply based on candidates' experiences, abilities and business needs, regardless of race, gender, age, marital status, pregnancy, family status, sexual orientation, religion and nationality. The remuneration package is being reviewed regularly. All talented candidates/employees can be hired and promoted, eligible to attend relevant training to meet business needs and personal career development.

Benefits and Welfares

The Group in one hand pays "Five social insurance and one Housing fund", namely endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident fund, for the employees as required. On the other hand, all employees are entitled to various statutory holidays and paid leave. In return for employees' hard work, moreover, the Group will benchmark employees' salaries against industry norms to maintain a competitive remuneration package to the talented for reward. All employees shall participate in the annual appraisal to review their performance.

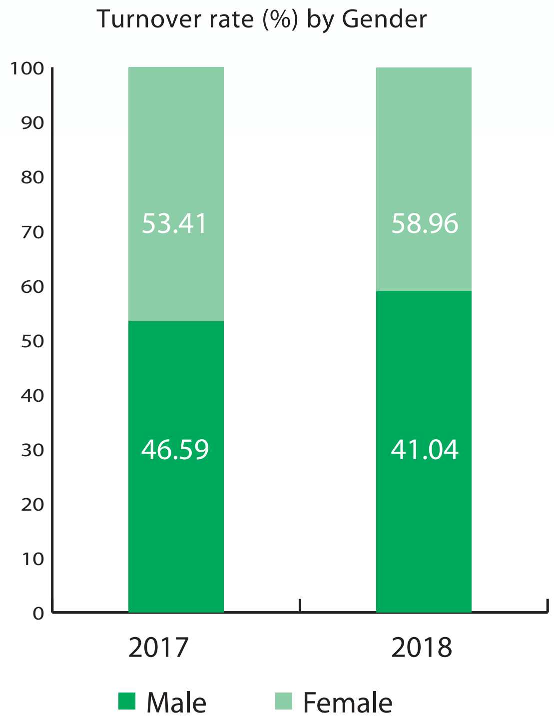
Team Profile

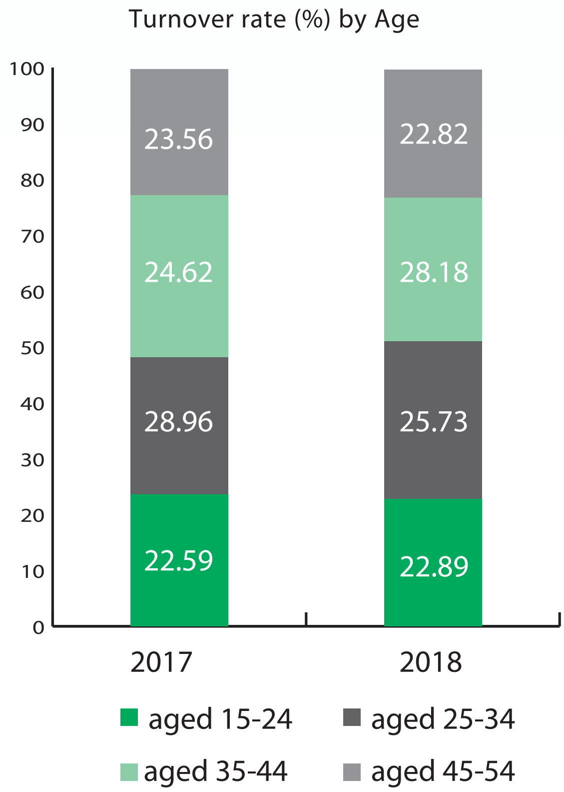
As of 31 December 2018, the Group employs 1,880 employees, of which 1,830 are full-time employees and 50 are trainees. In total, 1,230 employees are female, and 650 employees are male. The Group consists of management and general staff to deal with daily operation. A total of 1,880 employees, in which the general staff occupies around 97% of the total workforce and the remaining 49 employees are management.

Total Workforce		(as of 31 December 2018) Number of People
By Gender	Male	650
	Female	1,230
By employment type	Full time	1,830
	Trainees	50
By age	15-24 years old	227
	25-34 years old	221
	35-44 years old	575
	45-54 years old	833
	55-64 years old	23
	65 years old or above	1
By employee category	Senior management	6
	Middle Management	19
	Supervisor	24
	General staff	1,831

Come and go is a natural process in the organization. Yet it should not blind the Group to the employee turnover. Employee turnover rate in the Reporting Period is 5.79% which is slightly increased when compared to 2017. Every individual will be invited to attend an exit interview to get to know their reasons to resign and address their opinion in the future.

As of 31 December 2018,





OCCUPATIONAL HEALTH AND SAFETY

The Group remains highly attentive to health and safety. It is the Group's responsibility to provide a safe working environment. At first, health and safety committee, which is comprising senior human resource, administrative manager, safety manager, representatives from security and fire service, labour union and business units, is formed to oversee the overall health and safety performance, identify potential risks in which controls are either absent, ineffective or not complied with and address the risks by formulating policies. In 2018, there were few non-compliance cases with regulations in regard to occupational health and safety such as noise level exceeded the recommended dosage, obstructions to means of escape and inappropriate or even insufficient use of Personal Protective Equipment (PPE). Due to these non-compliances, the Group addressed the hazards by the different corresponding protection. For example, proper soundproof earplugs were provided, closely monitored the noise level, cleared the means of escape, and urged the employees to wear PPE during operation.

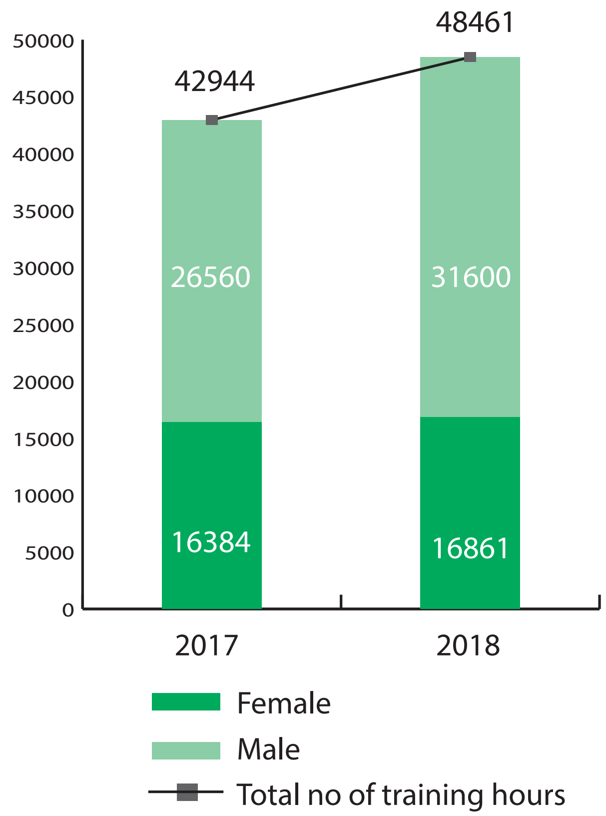
Furthermore, risk assessment is conducted annually for all working areas and regular body checks are offered to employees to ensure their health. The Group performs shift work as well to reduce employees' exposure to toxic gas. In addition, employees are in danger of equipment's instability and unreliability; therefore, regular checks of the equipment are carried out.

Aside from "Five social insurance and one Housing fund", the Group provides additional medical insurance for extra protection. Better still, the Group has attained a certification of OHSAS 18001 to systemize the occupational health and safety performance in the workplace. There were no work-related fatalities happened in the Group, unfortunately, the Group had 14 injuries or accidents occurred at the operating site. The Group reports with the deepest regret that there was a total of 1,086 work days were lost due to work-related accidents in the Reporting Period, yet the Group offers prompt assistance to the injured or the affected. The Group's health and safety committee launched investigations to examine the root cause of accidents. Corrective actions have been taken to avoid reoccurrence.

TRAINING AND DEVELOPMENT

Toy industry evolves with time and the Group understands that if the Group is no longer up to the changes, perhaps the Group might not cope with the market and sustain in the industry. The business units and human resources department, therefore, are stipulated a yearly training plan, covering technical and management topics to all employees. The Group also sponsors employees to attend external training to acquire the latest technology in the market. In the Reporting Period, all employees took part in different training and an average of 26 training hours was provided for each employee, which is 61% higher than that in 2017.

Training Hours by Gender



The Group deems new generation is a pillar of society. Internship programme with intensive training is organized. Sophisticated and experienced seniors train the fresh graduates up so that they can well-prepared for the labour market in the hope of bringing innovation and creativity to the Group.

LABOUR PRACTICES

The Group strongly believes children shall enjoy a pleasant childhood and even not to work. No children are allowed to work in the Group. The Group must undergo identity checks in the recruitment process to ensure the regulatory working age is met when onboard. The Group also wholeheartedly believes the importance of work-life balance as it links to productivity and accidents. The Group neither encourages nor forces employees to work overtime. As a result, employees are not only entitled to statutory leave and varies kinds of paid leave, which encourage them to take sufficient rest, but also, the Group is always meticulous about production schedule to avoid overtime work. The workflow will be carefully reviewed in the matter of a massive amount of overtime work needed. Additionally, the Group also highly appreciates employees to take part in leisure and social activities such as the Chinese New Year event to share warmth and happiness among fellow colleagues. Labour union is formed and all employees preserve the right to speak. Other than the aforementioned employees' benefits and welfares, the Group arranges monthly meetings with representatives of the labour union to collect employees' point of views.

OPERATING PRACTICES

Supply Chain Management

The business depends heavily on suppliers' cooperation. Building a long-term relationship with them is a Golden Rule to set up trust and reliability among them and the Group. As of 31 December 2018, the registered suppliers consist of 210 suppliers from PRC, 47 suppliers from Hong Kong, and 2 suppliers from other countries. In the selection process, the price is not the only one selection criteria, services quality and on-time delivery are also taken into consideration. Prior to making a contract, the Group conducts assessment and onsite inspection to assess suppliers' quality of standards, achievements on environmental protection and social responsibility. Other than that, the Group attentively concerns a safe working environment and an ethical business culture. As a result, an annual assessment, meetings and inspections are carried out to make certain that the suppliers' performance meets tender requirements. The suppliers who are unable to meet the requirements will be disqualified and removed from the supplier list.

To uphold the responsibility to disseminate sustainability to suppliers, the Group always keeps the minds open to figure out alternatives to decrease packaging materials and use fewer plastics as much as they can. The Group also states specifically on tender documents to encourage suppliers to adopt products with eco-labels and/or environmentally friendly products. In the selection process, priority is given to the local suppliers.

PRODUCT RESPONSIBILITY

Quality Assurance

Harmful and unsafe toys might cause much suffering to children. The consequences can be prolonged and untreatable. As a result, the Group takes particular care of product quality. In practice, the Group attains Certification on Quality Management System ISO 9001:2015. This ISO standard also guides the Group to implement a quality management system to control product quality systematically. Although the Group is a toy exporter, it also conducts inspections and random checks to assess the toys quality and assures all toys strictly follow regional and international safety and advisory requirements such as CE marking, Consumer Product Safety Commission (CPSC), STM F963-Standard Consumer Safety Specification for Toy Safety.

Besides, the Group has designed a clear and precise label and the instruction manual to guide consumers to use products properly and safely. Safety alert labels are placed at the surface of packaging materials or containers to avoid children mistakenly swallow and/or inhale the tiny parts, suffocate and pinch fingers. Zero reported incidents as regards product responsibility in the Reporting Period.

Given the significance of quality assurance of the toys, the Group has paid additional attention to raw materials. All materials used in the products are fully ruled by the Restriction of Hazardous Substances (RoHS). Providing testing reports and certificates to prove the quality and harmlessness of the products are a must-do item to suppliers. Product samples are tested, and inspections are carried out by the third-party testing laboratory before mass production. The Group operates a laboratory where is certified by China National Accreditation Service (CNAS) also examine the products randomly to assure the toys quality before delivery as well. All validating report are well-documented. In case of any fail reports of the toys, the Group will immediately cease the delivery process and recall the toys.

Due to the awareness of an extraordinarily high standard of product quality, the Group is pleased to note that there were no product recalls or returns regarding safety issues during the Reporting Period. Yet the Group exported more than 20 million of products yearly and still received lots of clients' enquiries about the products. Fortunately, there were no complaints regarding the products quality. Clients' feedbacks are motivations to perform better so every enquiry will be addressed and recorded in detail in accordance with the prescribed procedures. An investigation will be carried out and come up with improvements and suggestions for the captioned problem if any.

Intellectual Property Rights and Data Privacy

The Group respects the privacy of personal data and of course intellectual property rights. Personal data must always be kept highly confidential to prevent harm to clients, suppliers, individuals or other parties that have trusted the Group with their information. A guideline and procedure have established to guide every one of the Group to handle personal data. The information is also restricted the access right to selected personnel who are well-trained to manage the sensitive data. Under no circumstances, the Group discloses personal data and sensitive information to the third parties or the public without clients' consent. Besides, the Group refuses to use any outdated and unauthorized software to avoid data leakage and enhance cybersecurity. The Group endeavours to communicate with its business partners about intellectual property rights protection and acknowledge them the laws and regulations can protect the Group's right.

ANTI-CORRUPTION

Integrity gives much greater importance to brand image and performance. The Group is bound by rigidly laws and compliances on anti-corruption for certain. The Group must obey national and regional laws and regulations in business operation. The Code of conduct is well-defined and outlined the area of anti-corruption risk and handling advantages procedures. The Group's attitude against corruption is stated clearly to all employees. Any form of bribery, extortion, fraud and money laundering are forbidden. An internal control system is set up to review the operation flow and assure operation consistency. A couple of refresher training is scheduled, especially for those post-holders with high risk in corruption. Employees can remain anonymous to report on any suspected cases to the Group. The Group will not condone any unlawful acts and corruption. In the Reporting Period, there was no suspected case of bribery, extortion, fraud and money laundering.

COMMUNITY INVOLVEMENT

Business development closely connects with the community and it is the social responsibility of the Group to utilize our advantages to assist the needy in the society, especially children. In 2018, the Group sponsored HKD20,000 to the underprivileged children, yet the Group understands financially supports is far from helping those in need sufficiently. As a result, the Group partnered with local charities to organize voluntary activities to offer more than 300 hours of in-kind support. Employees and their families are welcome to participate in voluntary activities. For instance, trees planting, community visit at child and elderly care centres and at local schools. In the meantime, the Group donated toys and stationaries to them as well. The Group will continue to work diligently to the community with charities, employees and their families.

BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of Directors as at 30 October 2019, the date of this annual report, are set out below:

EXECUTIVE DIRECTORS

Mr. Zhao Deyong ("Mr. Zhao"), *Chairman*

Aged 56, joined the Company as an Executive Director and was appointed the Chairman of the Company on 16 May 2019. Mr. Zhao is also a director of several subsidiaries of the Company. Mr. Zhao graduated from the Correspondence Institute of the Central Party School of C.P.C. (中共中央黨校函授學院) in December 1998, majoring in economic. Since June 2018, Mr. Zhao has been the chairman of Zhonghe Co., Ltd, a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 002070). Prior to his current position, Mr. Zhao served as a deputy director of the Industry and Information Commission of Chifeng City (赤峰市工業和信息化局) in the PRC from October 2008 to September 2014.

Mr. Liu Michael Xiao Ming ("Mr. Liu")

Aged 65, joined the Company as an Executive Director and was appointed the Chief Executive Officer of the Company on 10 May 2019. Mr. Liu is also a director of several subsidiaries of the Company. Mr. Liu holds a Juris Doctor degree from Harvard Law School from Harvard University, a Master of Arts degree of Fletcher School of Law and Diplomacy from Tufts University and a Bachelor of Arts in English degree in ZheJiang University* (浙江大學). Mr. Liu has over 30 years of experience in the field of legal, private equity, corporate finance, financial management and other business consultancy matters. Mr. Liu has been the general manager of Jiangsu Union Energy Co. Ltd* (江蘇合志新能源科技有限公司) since February 2014. Mr. Liu was admitted as a member of the New York State Bar in March 1989.

Mr. Luo Lianjun ("Mr. Luo")

Aged 48, joined the Company as an Executive Director on 10 May 2019. Mr. Luo obtained a Bachelor's degree in Law from the China University of Political Science and Law* (中國政法大學) in July 1993, and is currently a practicing lawyer and a non-practising certified public accountant in the PRC. Since September 2014, he has been a partner and person in charge at Beijing Baoying Law Firm* (北京市寶盈律師事務所). Prior to his current position, Mr. Luo worked as a practicing lawyer and partner in Beijing Pucheng Law Firm* (北京市普誠律師事務所) from January 2009 to August 2014.

NON-EXECUTIVE DIRECTOR

Mr. Lin Shaopeng ("Mr. Lin")

Aged 60, joined the Company as a consultant in December 2014 and a Non-executive Director of the Company on 18 December 2017. He has been providing advisory services to the Group's toys operation since December 2014. Mr. Lin is also a director of several subsidiaries of the Company. Mr. Lin has extensive experience in factory and logistics management in the PRC.

* For identification purpose only

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwok Kim Hung Eddie ("Mr. Kwok"), *Chairman of the Audit Committee and member of the Nomination Committee and the Remuneration Committee*

Aged 48, joined the Company as an Independent Non-executive Director on 7 March 2019. Mr. Kwok holds a Master of Professional Accounting degree from The Hong Kong Polytechnic University, a Master of Corporate Governance degree from The Open University of Hong Kong and a Honours Diploma in Accounting from Hong Kong Shue Yan University (formerly known as Hong Kong Shue Yan College). Mr. Kwok is a member of the Hong Kong Institute of Certified Public Accountants, and an associate member of each of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. Kwok has over 23 years of experience in the field of accounting and financial management. Mr. Kwok has been an independent non-executive director of Siberian Mining Group Company Limited, a company listed on the Stock Exchange(stock code: 1142), since February 2014, and an independent non-executive director of Zhejiang Rui Yuan Intelligent Control Technology Company Limited, a company listed on GEM of the Stock Exchange (stock code: 8249), since June 2012. Prior to his current positions, Mr. Kwok served as a financial controller, the company secretary and one of the authorised representatives of Forebase International Holdings Limited, a company listed on the Stock Exchange (stock code: 2310).

Mr. Ng Wai Hung ("Mr. Ng"), *Chairman of the Nomination Committee and member of the Audit Committee and the Remuneration Committee*

Aged 55, joined the Company as an Independent Non-Executive Director on 21 May 2019. Mr. Ng admitted as a solicitor of the High Court of Hong Kong in March 1992. Mr. Ng is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng practises in the areas of securities, corporate finance and commercial law in Hong Kong.

Mr. Ng has been a non-executive director of Coolpad Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2369), since January 2018. Mr. Ng has also been serving as an independent non-executive director of three companies listed on the Stock Exchange, namely Lajin Entertainment Network Group Limited (formerly known as China Star Cultural Media Group Limited, stock code: 8172) since March 2015, Xinyi Automobile Glass Hong Kong Enterprises Limited (stock code: 8328) since July 2016 and 1957 & Co. (Hospitality) Limited (stock code: 8495) since November 2017.

In the last three years, Mr. Ng served as an independent non-executive director of Fortune Sun (China) Holdings Limited (stock code: 352), GOME Retail Holdings Ltd.(stock code: 493), Sustainable Forest Holdings Limited (stock code: 723), Trigiant Group Limited (stock code: 1300), Kingbo Strike Limited (stock code: 1421), Tech Pro Technology Development Limited (stock code: 3823) and YTO Express (International)Holdings Limited (formerly known as On Time Logistics Holdings Limited, stock code: 6123) (all being companies listed on the Stock Exchange) and resigned in September 2017, May 2017, December 2017, August 2017, June 2017, March 2017 and December 2017, respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS

Ms. Shi Xiaolei ("Ms. Shi"), *Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee*

Aged 35, joined the Company as an Independent Non-executive Director on 21 May 2019. Ms. Shi obtained a bachelor's degree in management from Shandong University in July 2006 and a Master of Arts degree in Industrial Relations and Personnel Management from The University of Warwick in December 2008. Ms. Shi is a Certified Tax Adviser of The Taxation Institute of Hong Kong.

Ms. Shi has been the chief operation officer and chief tax officer of Milestone Asset Management (Cayman) Co., Ltd since March 2019. Prior to her current positions, Ms. Shi worked at Deloitte for over 9 years in international tax and business advisory. She has extensive experience in the areas of providing tax services in relation to initial public offerings, mergers and acquisitions, and business model optimization, and advising multinational corporations and public companies in Hong Kong and PRC. Ms. Shi worked at Deloitte Suzhou office from October 2009 to March 2013 as a senior tax advisor. From April 2013 to February 2019, Ms. Shi worked at Deloitte Hong Kong office, and her last position was senior manager in tax and business advisory.

REPORT OF THE DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 43 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Company and an indication of likely future development in the Company's business, can be found in the Chairman's Statement and the Management Discussion and Analysis set out on pages 5 to 10 of this annual report. This discussion forms part of this Report of the Directors.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 51.

FINAL DIVIDEND

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 158.

SHARE CAPITAL

Details of movement in the share capital of the Company during the year and details of share capital of the Company are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserve available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda and the Bye-laws of the Company, amounted to HK$nil (2017: HK$nil).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately HK$579.0 million of the total sales for the year and sales to the largest customer accounted for approximately 90.9%. Purchases from the Group's five largest suppliers accounted for approximately HK$77.8 million of the total purchases for the year and purchases from the largest supplier accounted for approximately 30.3%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

Executive Directors:

Mr. Zhao Deyong	(appointed on 16 May 2019)
Mr. Liu Michael Xiao Ming	(appointed on 10 May 2019)
Mr. Luo Lianjun	(appointed on 10 May 2019)
Mr. Xing Wei	(removed on 10 May 2019)
Mr. Wei Guo	(removed on 10 May 2019)

Non-executive Director:

Mr. Lin Shaopeng

Independent Non-executive Directors:

Mr. Kwok Kim Hung Eddie	(appointed on 7 March 2019)
Mr. Ng Wai Hung	(appointed on 21 May 2019)
Ms. Shi Xiaolei	(appointed on 21 May 2019)
Mr. Li Fang	(resigned on 7 March 2019)
Mr. Lau Shun Pong Johnson	(resigned on 10 April 2019)
Mr. Lai Ming Wai	(resigned on 11 April 2019)

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

UPDATES ON DIRECTORS' INFORMATION

There is no updated information of directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the directors' and the chief executive's remuneration are set out in note 12 to the consolidated financial statements.

INDEMNITY OF DIRECTORS

The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and other officers of the Company during the year.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "MATERIAL RELATED PARTY TRANSACTIONS" disclosure in note 42 to the consolidated financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests of each of the directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity and nature of interest	Personal interest	Corporate interest	Total interest	Approximate percentage of the Company's issued share capital *(Note 4)*
Mr. Xing Wei ("Mr. Xing")	Beneficial owner	10,000,000	–	10,000,000 *(Note 1)*	0.27%
	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 2)*	17.81%
Mr. Li Fang ("Mr. Li")	Beneficial owner	1,820,000	–	1,820,000 *(Note 3)*	0.05%

Note:

1. 10,000,000 shares granted under the share option scheme of the Company on 10 April 2015 were lapsed at the time when Mr. Xing being removed as Director on 10 May 2019.

2. 651,995,472 shares were held by Right Perfect Limited, which was a wholly-owned subsidiary of Brilliant Vision Global Limited ("BVG"). BVG was owned as to 58% by Ms. Zhao Yuanyuan and 42% by Mr. Xing, an Executive Director of the Company and being removed on 10 May 2019. Accordingly, Mr. Xing, Ms. Zhao Yuanyuan and BVG were deemed to be interested in 651,995,472 shares of the Company under the SFO.

3. 1,820,000 shares granted under the share option scheme of the Company on 30 December 2014 and 10 April 2015 were lapsed at the time when Mr. Li resigned as Director on 7 March 2019.

4. The percentage of shareholding is calculated on the basis of 3,661,864,729 shares of the Company in issue as at 31 December 2018.

Save as disclosed above and in the "EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS" disclosure in note 32 to the consolidated financial statements, as at 31 December 2018, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 32 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS" disclosure in note 32 to the consolidated financial statements, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

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

Long positions in the shares of the Company

Name of shareholder	Capacity and nature of interest	Personal interest	Corporate interest	Number of shares held	Approximate percentage of the Company's issued share capital *(Note 4)*
Mr. Xing Wei ("Mr. Xing")	Beneficial owner	10,000,000	–	10,000,000	0.27%
	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 1)*	17.81%
Ms. Zhao Yuanyuan ("Ms. Zhao")	Beneficial owner	4,996,000	–	4,966,000	0.14%
	Interest of spouse	3,540,000	–	3,540,000	0.10%
	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 1)*	17.81%
China Strategic Holdings Limited ("CSH")	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 2)*	17.81%
Mr. Ji Xiang (" Mr. Ji")	Interest of controlled corporation	–	496,976,000	496,976,000 *(Note 3)*	13.57%
Mr. Shen Jia ("Mr. Shen")	Beneficial owner	400,000,000	–	400,000,000	10.92%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (Continued)

Notes:

1. 651,995,472 shares were held by Right Perfect Limited, which was a wholly-owned subsidiary of Brilliant Vision Global Limited ("BVG"). BVG was owned as to 58% by Ms. Zhao and 42% by Mr. Xing, an Executive Director of the Company and being removed on 10 May 2019. Accordingly, Mr. Xing, Ms. Zhao and BVG were deemed to be interested in 651,995,472 shares of the Company under the SFO.

2. CSH had an indirect interest in the Company through its 100% indirect ownership in U Credit (HK) Limited, which had security interest in 651,995,472 shares of the Company. U Credit (HK) Limited had enforced the security interest in 651,995,472 shares on 4 July 2019.

3. 496,976,000 shares were held by Excel Jade Limited, which was owned as to 100% by Mr. Ji. Accordingly, Mr. Ji was deemed to be interested in 496,976,000 shares of the Company under the SFO.

4. The percentage of shareholding is calculated on the basis of 3,661,864,729 shares of the Company in issue as at 31 December 2018.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2018 as required pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued shares at the date of the annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with laws and regulations and any non-compliance may bring significant impact on the Group's operations. The Group's products are exported globally and the major markets include the USA, the European union, Japan and the PRC. The Group complied with those importing requirements, including product safety and material selections, imposed by these importing countries. Compliance with the PRC regulations are also essential to the Group manufacturing operations in the PRC. The Group is continuously monitoring the evolving regulations and ensure its compliance.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2018, there were no material and significant dispute between the Group and its employees, customers and suppliers.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group encourages environmental protection and is committed to fulfil its environmental, social and corporate responsibilities. Various investments in optimizing energy use and paper use were made and will be made. Measures were made to prevent or minimize pollutions and provide a safe and healthy working environment. The Group continues to review the latest technology and the best practices in the industry for adoption to address the environmental, social and corporate responsibilities.

AUDITORS

The consolidated financial statements for the year ended 31 December 2018 have been audited by Moore Stephens CPA Limited who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Zhao Deyong
Chairman

Hong Kong, 30 October 2019

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high standards of corporate governance practices at all times. The Board believes that good corporate governance helps the Company to safeguard the interests of its shareholders and to enhance the performance of the Group.

CORPORATE GOVERNANCE

During the financial year ended 31 December 2018, the Company had complied with all the applicable code provisions of the Corporate Governance Code set out in Appendix 14 of the Listing Rules except for the following deviation with reason as explained.

Pursuant to Code A.6.7, the independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

One Executive Director, one Non-executive Director and two Independent Non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 1 June 2018 due to other prior business engagements. One Executive Director, one Non-executive Director and two Independent Non-executive Directors of the Company were unable to attend the special general meeting of the Company held on 26 June 2018 due to other prior business engagements. However, there were at least one Executive Director and one Independent Non-executive Director presented at each meeting to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

Two Independent Non-executive Directors were resigned on 10 April 2019 and 11 April 2019 respectively. Upon the resignation of two Independent Non-executive Directors, the number of Independent Non-executive Directors falls below the minimum number of independent non-executive directors as required under Rules 3.10(1) and 3.10A of the Listing Rules. The number of members of the Audit Committee also below the minimum number as required under Rule 3.21 of the Listing Rules. Furthermore, there is a vacancy in the Nomination Committee and the Remuneration Committee for the period from 10 April 2019 to 21 May 2019.

Non-Compliance with Financial Reporting Provisions of the Listing Rules

On 28 March 2019, the Company announces that as additional time will be required to provide the required information to the auditors of the Company to perform the audit work in respect of the financial information of the Group for the year ended 31 December 2018, the Company could not timely publish its annual results and annual report as required under the Listing Rules.

On 3 May 2019, SHINEWING (HK) CPA Limited (“Shinewing”) resigned as the auditor of the Group after taking into account several factors, including among others:

1. several major outstanding audit matters including, but not limited to, the disposal transaction of subsidiaries of the Group and the use of going concern basis underlying the preparation of the consolidated financial statements of the Group for the year ended 31 December 2018; and

2. a direct confirmation received by Shinewing from a debtor of the Group during the course of audit which indicated that the confirmed balances/transactions appear to have involved arrangements with certain directors of the Company that were not reflected in the books and records of the Group’s subsidiary.

CORPORATE GOVERNANCE (Continued)

Non-Compliance with Financial Reporting Provisions of the Listing Rules (Continued)

Following the resignation of Shinewing, Prism CPA Limited ("Prism") was appointed as the auditors of the Group on 8 May 2019. Prism will accept the appointment as auditors of the Group after the satisfactory completion of their client acceptance procedures. Further on 6 June 2019, Prism stated that they were unable to accept the appointment as the auditors of the Group as they were unable to commit to the timetable set by the Board regarding the completion of the audit work on the consolidated financial statements of the Group for the year ended 31 December 2018. Subsequently, the Company appointed Moore Stephens CPA Limited as the auditors of the Group with effect from 6 June 2019.

As such, the Company was not able to timely comply with the financial reporting provisions under the Listing Rules in (i) announcing the annual results for the financial years ended 31 December 2018 and interim results for the six month periods ended 30 June 2019; and (ii) publishing the related annual reports and interim reports for the above-mentioned years and periods.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiries have been made with the Directors and they have confirmed their compliance with the Own Code and the Model Code during the year ended 31 December 2018.

BOARD OF DIRECTORS

The overall management and control of the Group's business are vested in the Board. The Board is responsible for establishing policies, strategies and plans, providing leadership in creating value and overseeing the Group's financial performance on behalf of shareholders of the Company.

The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operations of the Group are delegated to the executive director and senior management of the Company. Prior to entering into any significant transactions, the executive director and senior management of the Company have to obtain Board approval.

As at the date of this annual report, the Board comprises seven Directors, including three Executive Directors, namely Mr. Zhao Deyong (Chairman), Mr. Liu Michael Xiao Ming and Mr. Luo Lianjun; one Non-executive Director, namely Mr. Lin Shaopeng; and three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Ng Wai Hung and Ms. Shi Xiaolei. The Company has received from each of the Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the Directors are set out under the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS" on pages 24 to 26 of this annual report.

The Company will provide a comprehensive, formal and tailored induction to each newly appointed director on his/her first appointment in order to enable him/her to have appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

BOARD OF DIRECTORS (Continued)

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the directors. Continuing briefing and professional development for directors are arranged where necessary.

During the year ended 31 December 2018, three regular full Board meetings and two general meetings were held and the attendance of each director is set out as follows:

	Number of attendance	
Name of directors	**Board Meetings**	**General Meetings**
Executive Directors		
Mr. Xing Wei (removed on 10 May 2019)	3/3	0/2
Mr. Wei Guo (removed on 10 May 2019)	3/3	2/2
Mr. Zhao Deyong (appointed on 16 May 2019)	N/A	N/A
Mr. Liu Michael Xiao Ming (appointed on 10 May 2019)	N/A	N/A
Mr. Luo Lianjun (appointed on 10 May 2019)	N/A	N/A
Non-executive Directors		
Mr. Lin Shaopeng	2/3	0/2
Independent Non-executive Directors		
Mr. Li Fang (resigned on 7 March 2019)	3/3	0/2
Mr. Lau Shun Pong Johnson (resigned on 10 April 2019)	3/3	2/2
Mr. Lai Ming Wai (resigned on 11 April 2019)	3/3	0/2
Mr. Kwok Kim Hung Eddie (appointed on 7 March 2019)	N/A	N/A
Mr. Ng Wai Hung (appointed on 21 May 2019)	N/A	N/A
Ms. Shi Xiaolei (appointed on 21 May 2019)	N/A	N/A

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Group's business. The Company supports that there should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual. The Company appointed Mr. Zhao Deyong ("Mr. Zhao") as the Chairman of the Board and the Executive Director of the Company on 16 May 2019 after the removal of Mr. Xing Wei as the Chairman and Executive Director of the Company on 10 May 2019. Mr. Zhao takes up the responsibility of the management of the Board. Following Mr. Zhang Jack Jiyei's resignation as Chief Executive Officer of the Company on 12 October 2017 and the Executive Director of the Company on 16 November 2017, the Company appointed Mr. Wei Guo ("Mr. Wei") as the Executive Director and the Chief Executive Officer of the Company on 16 November 2017 and 15 June 2018 respectively, and was removed on 10 May 2019. After that, the Company appointed Mr. Liu Michael Xiao Ming ("Mr. Liu") as the Executive Director and Chief Executive Officer of the Company on 10 May 2019. Mr. Liu is responsible for the day-to-day management of the Group's business.

NON-EXECUTIVE DIRECTORS

Each of the Non-executive Director and Independent Non-executive Director is appointed for a term of twelve-month period which automatically renews for successive twelve-month periods unless terminated by either party in writing prior to the expiry of the term. The Non-executive Directors and all the Independent Non-executive Directors are also subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Ng Wai Hung and Ms. Shi Xiaolei. Ms. Shi Xiaolei is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The full terms of reference of the Remuneration Committee are available on the Company's website and the Stock Exchange's website.

The Remuneration Committee met three times during the year ended 31 December 2018 to review the remuneration packages for directors. The attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Li Fang (resigned on 7 March 2019)	3/3
Mr. Lau Shun Pong Johnson (resigned on 10 April 2019)	3/3
Mr. Lai Ming Wai (resigned on 11 April 2019)	3/3
Mr. Kwok Kim Hung Eddie (appointed on 7 March 2019)	N/A
Mr. Ng Wai Hung (appointed on 21 May 2019)	N/A
Ms. Shi Xiaolei (appointed on 21 May 2019)	N/A

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Nomination Committee comprises three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Ng Wai Hung and Ms. Shi Xiaolei. Mr. Ng Wai Hung is the Chairman of the Nomination Committee.

The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition, assessment of the independence of independent non-executive directors and the management of the Board succession. The full terms of reference of the Nomination Committee are available on Company's website and the Stock Exchange's website.

The Nomination Committee met one time during the year ended 31 December 2018 to review the appointment of the directors, the structure, size and composition of the Board. The attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Li Fang (resigned on 7 March 2019)	1/1
Mr. Lau Shun Pong Johnson (resigned on 10 April 2019)	1/1
Mr. Lai Ming Wai (resigned on 11 April 2019)	1/1
Mr. Kwok Kim Hung Eddie (appointed on 7 March 2019)	N/A
Mr. Ng Wai Hung (appointed on 21 May 2019)	N/A
Ms. Shi Xiaolei (appointed on 21 May 2019)	N/A

The Board had adopted a board diversity policy (the "Policy") in September 2013 and amended by resolutions of the Board passed on 21 October 2019 which sets out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board. Selection of candidates will be based on range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will monitor the implementation of the Policy and will from time to time review the Policy, as appropriate, to ensure the effectiveness of the Policy.

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Ng Wai Hung and Ms. Shi Xiaolei. Mr. Kwok Kim Hung Eddie is the Chairman of the Audit Committee.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditor and making the relevant recommendation to the Board; and reviewing the Group's financial reporting system, internal control system and risk management system. The Audit Committee is also delegated the corporate governance function of the Board to monitor, procure and manage corporate governance compliance within the Group. The full terms of reference of the Audit Committee are available on Company's website and the Stock Exchange's website.

The Audit Committee met two times during the year ended 31 December 2018 and the attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Li Fang (resigned on 7 March 2019)	2/2
Mr. Lau Shun Pong Johnson (resigned on 10 April 2019)	2/2
Mr. Lai Ming Wai (resigned on 11 April 2019)	2/2
Mr. Kwok Kim Hung Eddie (appointed on 7 March 2019)	N/A
Mr. Ng Wai Hung (appointed on 21 May 2019)	N/A
Ms. Shi Xiaolei (appointed on 21 May 2019)	N/A

The following is a summary of work performed by the Audit Committee during the year ended 31 December 2018:

1. Reviewed and approved the remuneration and terms of engagement of the Company's auditor; and reviewed and made recommendations to the Board on the appointment of the Company's auditor;

2. reviewed and discussed the Group's management accounts; and

3. adoption of internal control review report in order to assess the internal control system of the Group.

AUDITOR AND AUDITOR'S REMUNERATION

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Moore Stephens CPA Limited ("Moore Stephens"). The statement of the external auditor of the Company about its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2018 is set out in the section headed "Independent Auditor's Report" on pages 44 to 50 of this annual report.

During the year ended 31 December 2018, the following fees were paid or payable to Moore Stephens, the auditor of the Company:

	HK$'000
Fee for audit services *(Note a)*	2,649
Total	2,649

Notes:

(a) The audit services provided by Moore Stephens.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements of the Company for each financial period with a true and fair presentation of the financial position of the Group. The Company's financial statements are prepared in accordance with all statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and the related interpretations, adjustments and estimates made are prudent and reasonable and the financial statements have been prepared on a going concern basis. The Directors are aware of conditions indicating the existence of material uncertainty related to going concern, and are of the view that the Group will continue as a going concern for the reasons stated as set out in the paragraph "Material uncertainties relating to the Group's ability to continue as a going concern" on pages 59 and 60 of this report. The statement made by the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report" of this annual report.

CORPORATE GOVERNANCE FUNCTIONS

In order to establish the duties and responsibilities of the Board in performing its corporate governance functions, the Board has delegated certain corporate governance functions to the Audit Committee, which include (i) developing and reviewing policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of directors and senior management; (iii) reviewing and monitoring the policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; and (v) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

INTERNAL CONTROL

The Board recognises its responsibilities for maintaining an adequate system of internal control to safeguard the Group's assets and shareholders' interests. An internal control system, including a defined management structure with limits of authority, is designed to help achieving business objectives, safeguarding assets against unauthorised use, and maintaining proper accounting records for the provision of reliable financial information for internal use and for publication. The internal control system is set up to provide reasonable, but not absolute, assurance against material misstatement of financial statements or loss of assets and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Group has a positive attitude to internal controls improvements. For the purpose of strengthening its existing internal control system, the Company has appointed an independent professional firm to perform a review of the Group's selected internal control cycles during the year ended 31 December 2018. The internal control review report has been reviewed by the Audit Committee. The Group is considering the recommendations on the deficiencies identified by the independent professional firm and the recommendations will be followed up on a regular basis and discussed with the Audit Committee.

COMPANY SECRETARY

Mr. Lau On Kwok ("Mr. Lau") was appointed as the Company Secretary of the Company on 10 November 2014 and was resigned on 13 November 2018. Following Mr. Lau's resignation, the Company appointed Mr. Shoom Chin Wan ("Mr. Shoom") as the Company Secretary of the Company on 10 December 2018 and Mr. Shoom was resigned on 7 March 2019.

Following Mr. Shoom's resignation, Mr. Yip Chun Chung ("Mr. Yip") was appointed as the Company Secretary of the Company on 7 March 2019. Mr. Yip is a full time employee of the Company who has day-to-day knowledge of the Company. Mr. Yip has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene a special general meeting

According to bye-law 58 of the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda (the "Companies Act").

Procedures for shareholders to put forward proposals at general meetings

Pursuant to the Companies Act, any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or not less than one hundred shareholders, can request the Company in writing to:

(a) give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;

(b) circulate to shareholders of the Company entitled to have notice of any general meeting send to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be deposited to the Company not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in case of any other requisition.

SHAREHOLDERS' RIGHTS (Continued)

Procedures for shareholders to propose a person for election as a director of the Company

According to bye-law 88 of the Company's Bye-laws, no person other than a director retiring at the general meeting of the Company shall, unless recommended by the Board for election, be eligible for election to the office of director at any general meeting of the Company unless a notice in writing of the intention to propose such person for election as a director, signed by a shareholder of the Company (other than the person to be proposed for election as a director) duly qualified to attend and vote at the general meeting of the Company for which such notice is given, and a notice in writing signed by such person of his/her willingness to be elected shall have been lodged at the Company's head office in Hong Kong or at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Company Secretary of the Company at the Company's head office in Hong Kong at Rooms 2202–2203, 22/F., Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, constitutional documents, notices, announcements and circulars and the Company's website at www.winshine.com and www.tricor.com.hk/webservice/000209. Information on the Company's website will be updated from time to time.

INDEPENDENT AUDITOR'S REPORT

MOORE

Moore Stephens CPA Limited

801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180
F +852 2375 3828

www.moore.hk

大華馬施雲
會計師事務所有限公司

TO THE SHAREHOLDERS OF WINSHINE SCIENCE COMPANY LIMITED
瀛晟科學有限公司*
(incorporated in Bermuda with limited liability)

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Winshine Science Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 51 to 157, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

* *For identification purpose only*

Basis for Disclaimer of Opinion

(i) Scope limitations concerning the Group's deposit paid for refurbishment of properties and other receivables

As disclosed in note 8(a) to the consolidated financial statements, on 17 February 2016, the Group, entered into a sale and purchase agreement (the "Acquisition Agreement") with third parties (the "Vendors") for the acquisition of certain assets and recognised certain liabilities through the acquisition of the entire equity interest of 宜諾科技(蘇州)有限公司 (Yi Nuo Technology (Suzhou) Co., Ltd., ("Yi Nuo")), a company established in the People's Republic of China (the "PRC"), at a cash consideration of RMB64.5 million (equivalent to approximately HK$74.5 million). The main assets of Yi Nuo are a parcel of land and the building thereon in Suzhou, Jiangsu Province, the PRC ("Suzhou Building") and a receivable amounting to RMB37.5 million (equivalent to approximately HK$44.3 million) due from one of the Vendors ("Vendor B") which shall be settled within six months upon the completion of the acquisition according to payment schedule agreed with Vendor B (the "Receivable"). Out of the RMB64.5 million (equivalent to approximately HK$74.5 million) cash consideration, RMB4.4 million (equivalent to approximately HK$5.0 million) remained unsettled upon the completion of the acquisition. As at 31 December 2018 and 2017, the amount due from Vendor B and the aforementioned outstanding cash consideration remained unsettled. As at 31 December 2018, the directors of the Company considered that the amount of the Receivable (net of consideration payable) owing from Vendor B was uncollectible and hence an impairment loss of RMB33.2 million (equivalent to approximately HK$39.3 million) for such receivables owing from Vendor B after netting off against the remaining consideration payable due to Vendor B was recognised in consolidated profit or loss for the year ended 31 December 2018.

Furthermore, on 8 August 2016, the Group had entered into a refurbishment agreement with Vendor B for the Suzhou Building with a contract sum of RMB58.0 million (equivalent to approximately HK$68.5 million), of which deposits of an aggregated amount of RMB54.7 million (equivalent to approximately HK$64.6 million) were paid to the Vendor B during November and December 2016. As at 31 December 2018 and 2017 and up to the date of this report, the deposits were unutilised and the refurbishment work has not been completed. The Group has recognised an impairment loss of the deposits of RMB54.7 million (equivalent to approximately HK$64.6 million) in its consolidated profit or loss for the year ended 31 December 2018 to fully write down the carrying amount of these deposits.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about the nature and validity, of the deposits paid in 2016 in respect of the refurbishment of the Suzhou Building. In addition, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether, and if so how much of, the impairment losses recognised in consolidated profit or loss for the year ended 31 December 2018 in respect of the amount due from Vendor B and the deposits for the refurbishment of Suzhou Building referred to above should be recognised in financial years prior to the year ended 31 December 2018. Consequently, we were unable to determine whether any adjustments mentioned immediately following would be necessary to the classification and amounts presented in the consolidated financial statements in relation to deposit paid for refurbishment of Suzhou Building and amount due from Vendor B (included in prepayments, deposits and other receivables), impairment losses on these balances, the related elements making up the consolidated statement of changes in equity, the consolidated statement of cash flows and the related disclosures in the consolidated financial statements. Any adjustments found to be necessary in respect of these matters might have significant consequential effects on the losses and cash flows of the Group for the years ended 31 December 2018 and 2017 and the net assets of the Group as at 31 December 2017 presented in the consolidated financial statements.

(ii) Scope limitation on inability to obtain sufficient appropriate audit evidence concerning certain transactions and loans made by a subsidiary of the Group

During the year ended 31 December 2018, the Group's subsidiary established in Hainan, the PRC, (the "Subsidiary") signed a service agreement with a business development and advertising agent (the "Debtor") in respect of a plan for developing a resort village in Hainan with a contract sum of approximately RMB2.15 million and the Group paid a sum of RMB1.98 million of which a sum of RMB1.38 million (equivalent to approximately HK$1.58 million) was purported to be a prepayment to the service fee which was not utilised and was recorded as other receivable as at 31 December 2018 and RMB0.6 million was recorded as service fee in profit or loss during the year ended 31 December 2018. A further payment of RMB0.89 million was made subsequent to the reporting period in January 2019. As disclosed in the announcement dated 6 May 2019 made by the Company regarding the resignation of the then auditor for the consolidated financial statements for the year ended 31 December 2018, the then auditor of the Company received a direct confirmation from the Debtor during their audit which indicated that the balances/transactions (the "Transactions") involved arrangements with a former director of the Company (the "Ex-Director") that were not reflected in the books and records of the Subsidiary.

The Transactions entered with an intention to pursue business opportunities for the Group in Hainan, the deposits of RMB1.38 million (equivalent to approximately HK$1.58 million) as at 31 December 2018 and the further payment of RMB0.89 million (equivalent to approximately HK$1.02 million) made in January 2019, totally RMB2.27 million (equivalent to approximately HK$2.60 million), were short-term advances made, under the control of the Ex-Director, to six parties through the Debtor, of which RMB0.4 million was made to a related party of the Ex-Director. Subsequent to the end of the reporting period, certain recipients, including the related party with the Ex-Director, repaid the funds of RMB0.7 million (equivalent to approximately HK$0.8 million) to the Group via the Debtor who also accepted that such amount would be used to settle its outstanding service fee, which was reduced to RMB1.3 million (equivalent to approximately HK$1.5 million) as final settlement, with a further amount of RMB0.7 million (equivalent to approximately HK$0.8 million) recognised to the profit or loss for the year ended 31 December 2018. Furthermore, in September 2019, the remaining RMB1.57 million (equivalent to approximately HK$1.79 million) out of the RMB2.27 million (equivalent to approximately HK$2.60 million) was repaid to the Subsidiary.

During the period from April 2018 to July 2018, the Subsidiary entered into loan arrangements with five parties outside the Group for a sum of approximately RMB14.18 million (equivalent to approximately HK$16.18 million) (the "Loans"), of which RMB0.2 million (equivalent to approximately HK$0.23 million) was made to a related party of that Ex-Director. The Loans were unsecured, interest-free and repayable within 12 months from the date of drawn down. Before the end of the reporting period, an amount of RMB10.2 million out of a loan made to a party of RMB10.36 million was repaid to the Subsidiary. The rest of the Loans totalling RMB3.98 million (equivalent to approximately HK$4.54 million) including RMB0.2 million (equivalent to approximately HK$0.23 million) due from a related company remained outstanding as at 31 December 2018. As disclosed in note 24 to the consolidated financial statements, this outstanding amount was subsequently repaid to the Subsidiary in April 2019. Also, the Subsidiary entered into a consultancy service agreement with another counterparty in relation to the plan for developing a resort village in Hainan, and made a deposit paid of RMB1,700,000 (equivalent to approximately HK$1,940,000) and recorded as other receivables as at 31 December 2018. This consultancy service agreement was subsequently terminated in April 2019, and such deposit paid was refunded to the Subsidiary.

The New Board (as defined in note 2 to the consolidated financial statements), which was formed on 10 May 2019, established a special investigation committee (the "SIC") comprising an executive director and 2 independent non-executive directors on 18 May 2019 and engaged an independent forensic accountant with the purposes of investigating (i) the Transactions and Loans and (ii) identifying if there are any other similar fund transfer arrangements.

In respect of the above, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves regarding the nature and business rationale for making the short-term fund advance arrangements described above, and whether any party related to related parties of the Group was involved in the transactions, particularly given the influence and involvement of the Ex-Director in the arrangements for the Transactions given the aforesaid discovery of discrepancies between the direct confirmation received from the Debtor and the accounting records by the then auditor in March 2019, and therefore we did not consider that we had obtained sufficient appropriate audit evidence to conclude whether the Ex-Director is not related to those counterparties, other than whom expressively identified as such by the Ex-Director, for the Loans and short-term fund advance arrangements under the Transactions and thus these parties are not related parties in accordance with Hong Kong Accounting Standard 24 "Related Party Disclosures". Accordingly, we are unable to conclude whether the associated related party transaction disclosures are complete and accurate for the current period as well as satisfying ourselves about the nature and the underlying commercial reasons of entering into the above transactions.

Consequently, we were unable to determine whether any adjustments that might have an impact on determination of the amounts presented in the consolidated statement of changes in equity, the consolidated statement of cash flows and the related disclosures in the consolidated financial statements, were necessary. Any adjustments found to be necessary in respect of these matters might have significant consequential effects on the losses and cash flows of the Group for the year ended 31 December 2018 presented in the consolidated financial statements.

Material Uncertainty Related to Going Concern

We draw attention to note 2 to the consolidated financial statements which indicates that the Group incurred a loss of approximately HK$153.6 million with net cash outflow from operating activities before working capital changes of approximately HK$19.5 million for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of approximately HK$70.4 million and cash and cash equivalents of approximately HK$75.5 million, in contrast, the Group's borrowings amounted to approximately HK$160.4 million, of which HK$45.0 million were overdue which have become repayable on demand as at 31 December 2018 (the "Bonds"), and approximately HK$115.4 million were repayable within the next twelve months as disclosed in note 29 to the consolidated financial statements.

Up to the date of the approval of the consolidated financial statements, in respect of the borrowings which were overdue and were repayable within the next twelve months as described above, the following measures were carried out:

(a) an extension agreement for the borrowings of HK$45.0 million has been entered into between the Company and the holder of the Bonds to extend the repayment terms of overdue bonds to 30 September 2020, details of which are set out in note 29 to the consolidated financial statements;

(b) an extension agreement in connection with the unsecured loan of approximately HK$25.0 million has been entered into between the Company and a substantial shareholder of the Company prior to its maturity date on 8 October 2019 to extend the repayment due date to 30 September 2020, details of which are set out in note 29 to the consolidated financial statements;

(c) the secured bank loan of HK$90.4 million was revolved on 24 June 2019 with repayment due date extended to 19 June 2020 pursuant to a loan revolving agreement entered into with the bank, details of which are set out in note 29 to the consolidated financial statements.

Besides, the Group also carried out other measures as set forth in note 2 to the consolidated financial statements to improve its financial position. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group being able to successfully achieve the outcome and implementation of the measures to meet its financial obligations when they fall due in the next twelve months from the date of issuance of these consolidated financial statements. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2018.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

However, because of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

Moore Stephens CPA Limited
Certified Public Accountants

Lai Hung Wai
Practising Certificate Number: P06995

Hong Kong, 30 October 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 *HK$'000*	2017 *HK$'000*
Revenue	6	**636,882**	589,933
Cost of sales		**(567,137)**	(502,364)
Gross profit		**69,745**	87,569
Other income, gains and losses	7	**16,589**	5,473
Impairment loss on deposit paid for refurbishment of properties	8(a)	**(64,627)**	–
Impairment loss on other receivables	8(a)	**(39,315)**	–
Impairment loss on deposit paid for purchase of property, plant and equipment	8(b)	**–**	(12,500)
Provision of expected credit loss for loan receivables	19	**(2,045)**	–
Provision of expected credit loss for trade receivables	22	**(138)**	–
Selling and distribution costs		**(8,183)**	(9,441)
Administrative expenses		**(80,047)**	(101,277)
Research and development expenses		**(1,972)**	(6,389)
Changes in fair value of financial assets at fair value through profit or loss		**(9,999)**	(7,016)
Other operating expenses		**(15,616)**	(12,436)
Finance costs	9	**(8,745)**	(11,808)
Loss before tax		**(144,353)**	(67,825)
Income tax expense	10	**(9,272)**	(9,908)
Loss for the year	11	**(153,625)**	(77,733)
Loss for the year attributable to the owners of the Company		**(153,625)**	(77,733)
Loss per share	15		
Basic and diluted		**(HK4.20 cents)**	(HK2.25 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Loss for the year		**(153,625)**	(77,733)
Other comprehensive income (expense)			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of properties	*16*	**1,678**	10,310
Deferred tax credit (charge) arising from revaluation surplus of properties	*30*	**800**	(420)
		2,478	9,890
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(14,426)**	23,047
Other comprehensive (expense) income for the year		**(11,948)**	32,937
Total comprehensive expense for the year		**(165,573)**	(44,796)
Total comprehensive expense for the year attributable to the owners of the Company		**(165,573)**	(44,796)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**126,570**	123,283
Prepaid land premiums	17	**3,729**	3,873
Investment properties	18	**105,912**	101,926
Loan receivables	19	**13,987**	–
Deposit paid for refurbishment of properties	8(a)	**–**	65,438
Deferred tax assets	30	**8,808**	–
		259,006	294,520
Current assets			
Financial assets at fair value through profit or loss	20	**17,580**	27,579
Inventories	21	**89,424**	83,987
Prepaid land premiums	17	**143**	143
Trade receivables	22	**43,245**	114,700
Loan receivables	19	**4,510**	16,159
Amount due from a related company	23	**228**	–
Prepayments, deposits and other receivables	24	**35,221**	62,767
Pledged bank deposits	25	**–**	21,474
Bank balances and cash	25	**75,489**	131,523
		265,840	458,332
Current liabilities			
Trade payables	26	**117,862**	171,375
Other payables and accruals	27	**54,041**	44,908
Contract liabilities	28	**1,745**	–
Borrowings	29	**160,422**	184,662
Tax payables		**2,133**	9,679
		336,203	410,624
Net current (liabilities) assets		**(70,363)**	47,708
Total assets less current liabilities		**188,643**	342,228
Non-current liabilities			
Deferred tax liabilities	30	**24,306**	9,060
		24,306	9,060
Net assets		**164,337**	333,168

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	*31*	**366,186**	366,186
Deficit		**(201,849)**	(33,018)
Total equity		**164,337**	333,168

The consolidated financial statements on pages 51 to 157 were approved and authorised for issue by the board of directors on 30 October 2019 and are signed on its behalf by:

ZHAO Deyong
Executive Director

LIU Michael Xiao Ming
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company								
	Issued share capital HK$'000	Share premium HK$'000	Asset revaluation reserve HK$'000	Statutory reserve fund HK$'000 (Note)	Share options reserve HK$'000	Warrant reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 1 January 2017	298,186	888,000	44,532	9,385	66,953	30,264	16,187	(1,097,943)	255,564
Loss for the year	–	–	–	–	–	–	–	(77,733)	(77,733)
Other comprehensive income for the year	–	–	9,890	–	–	–	23,047	–	32,937
Total comprehensive income (expense) for the year	–	–	9,890	–	–	–	23,047	(77,733)	(44,796)
Issue of shares	68,000	54,400	–	–	–	–	–	–	122,400
Revaluation reserve realised	–	–	(1,536)	–	–	–	–	1,536	–
Share options lapsed *(note 32)*	–	–	–	–	(8,260)	–	–	8,260	–
Warrants lapsed	–	–	–	–	–	(30,264)	–	30,264	–
Appropriation to statutory reserve fund	–	–	–	845	–	–	–	(845)	–
At 31 December 2017	**366,186**	**942,400**	**52,886**	**10,230**	**58,693**	**–**	**39,234**	**(1,136,461)**	**333,168**
Adjustment *(see note 3)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,258)**	**(3,258)**
At 1 January 2018 (restated)	**366,186**	**942,400**	**52,886**	**10,230**	**58,693**	**–**	**39,234**	**(1,139,719)**	**329,910**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(153,625)**	**(153,625)**
Other comprehensive income (expense) for the year	**–**	**–**	**2,478**	**–**	**–**	**–**	**(14,426)**	**–**	**(11,948)**
Total comprehensive income (expense) for the year	**–**	**–**	**2,478**	**–**	**–**	**–**	**(14,426)**	**(153,625)**	**(165,573)**
Revaluation reserve realised	**–**	**–**	**(1,889)**	**–**	**–**	**–**	**–**	**1,889**	**–**
Share options lapsed *(note 32)*	**–**	**–**	**–**	**–**	**(7,907)**	**–**	**–**	**7,907**	**–**
Appropriation to statutory reserve fund	**–**	**–**	**–**	**700**	**–**	**–**	**–**	**(700)**	**–**
At 31 December 2018	**366,186**	**942,400**	**53,475**	**10,930**	**50,786**	**–**	**24,808**	**(1,284,248)**	**164,337**

Note: The Group's subsidiaries in the People's Republic of China (the "PRC") are required to allocate at least 10% of net profit according to their PRC audited financial statements to a statutory reserve fund until the balance of such reserve has reached 50% of the subsidiaries' registered capital. Any further appropriation is optional. The statutory reserve fund shall only be used for making up losses or for capitalisation into share capital, provided that the remaining balance is not less than 20% of the registered capital of the entity after such capitalisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 *HK$'000*	2017 *HK$'000*
Operating activities		
Loss before tax	**(144,353)**	(67,825)
Adjustments for:		
Finance costs	**8,745**	11,808
Interest income	**(3,685)**	(2,936)
Amortisation of prepaid land premiums	**144**	146
Depreciation of property, plant and equipment	**9,588**	9,086
Unrealised loss on fair value of financial assets at fair value through profit or loss	**9,999**	7,016
Gain on fair value changes of investment properties	**(8,979)**	(2,146)
(Gain) loss on disposal of property, plant and equipment	**(129)**	16
Impairment loss on deposit paid for refurbishment of properties	**64,627**	–
Impairment loss on other receivables	**39,315**	–
Provision of expected credit loss for loan receivables	**2,045**	–
Provision of expected credit loss for trade receivables	**138**	–
Write-off on trade receivables	**256**	–
Write down of inventories, net	**2,749**	11,146
Impairment loss on deposit paid for purchase of property, plant and equipment	**–**	12,500
Gain on disposal of prepaid land premiums	**–**	(3,625)
Other operating expenses related to investing activities	**–**	10,016
Operating cash flows before movements in working capital	**(19,540)**	(14,798)
Increase in inventories	**(12,473)**	(56,039)
Decrease (increase) in trade receivables	**71,061**	(68,540)
Increase in prepayments, deposits and other receivables	**(18,233)**	(9,966)
(Decrease) increase in trade payables	**(56,685)**	113,771
(Decrease) increase in other payables and accruals	**(12,165)**	14,483
Decrease in contract liabilities	**(497)**	–
Cash used in operations	**(48,532)**	(21,089)
Income tax paid	**(9,269)**	(4,291)
Net cash used in operating activities	**(57,801)**	(25,380)

Note: Certain comparative figures had been reclassified to conform to current year's presentation as it is more meaningful to present the cashflow items of the Group.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(12,832)**	(10,602)
Proceeds on disposal of property, plant and equipment		**500**	393
Deposit received for disposal of a subsidiary	*27(a)*	**26,803**	–
Advance to a related company		**(236)**	–
Advances of loan receivables		**(16,000)**	(7,800)
Receipts of loan receivables		**8,359**	34,801
Interest received		**3,685**	5,044
Withdrawal of pledged bank deposits		**21,207**	–
Placement of pledged bank deposits		**–**	(18,904)
Proceeds on disposal of prepaid land premiums		**–**	3,861
Acquisition of assets through acquisition of a subsidiary	*34*	**–**	(50,312)
Other operating expenses related to investing activities		**–**	(10,016)
Net cash from (used in) investing activities		**31,486**	(53,535)
Financing activities			
Proceeds from borrowings		**547,232**	405,102
Repayment of borrowings		**(566,990)**	(390,377)
Interest paid		**(8,745)**	(11,702)
Proceeds from issue of shares		**–**	122,400
Net cash (used in) from financing activities		**(28,503)**	125,423
Net (decrease) increase in cash and cash equivalents		**(54,818)**	46,508
Cash and cash equivalents at beginning of the year		**131,523**	78,497
Effect of foreign exchange rate changes		**(1,216)**	6,518
Cash and cash equivalents at end of the year, represented by bank balances and cash		**75,489**	131,523

1. CORPORATE INFORMATION

Winshine Science Company Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") is a limited liability company incorporated in Bermuda. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report. The Company's shares are listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Due to the delay in publication of the 2018 annual results and pursuant to the requirements of Rule 13.50 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), trading in the shares of the Company on the Stock Exchange has been suspended with effect from 1 April 2019.

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 43.

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

Certain comparative figures have been reclassified to conform with current year's presentation. These reclassifications have no effect on financial position, loss for the year or cash flows of the Group.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Matters arising from the change in directors

With effect from the conclusion of an extraordinary general meeting on 10 May 2019, the two executive directors of the Company were removed and two new executive directors were appointed into the board of directors of the Company (the "New Board" or the "directors"). The directors of the Company have reviewed the Group's corporate governance structure and identified that there were appropriate key management personnel in the subsidiaries of the Company who were responsible for the relevant operating and financial functions and could direct the relevant activities of the subsidiaries in previous years and prior to the change to the New Board. In the opinion of the directors of the Company, the accounting books and records of the Company and its subsidiaries have been properly maintained for the year ended 31 December 2018.

Based on the directors' assessment, the directors are of the view that they are eligible to fulfil their responsibilities to prepare the consolidated financial statements.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(b) Material uncertainties relating to the Group's ability to continue as a going concern

For the year ended 31 December 2018, the Group incurred a loss of approximately HK$153,625,000 with net cash outflow from operating activities before working capital changes of approximately HK$19,540,000 for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of approximately HK$70,363,000. The Group's bank balances and cash amounted to approximately HK$75,489,000, in contrast to its borrowings of approximately HK$160,422,000, of which HK$45,000,000 were overdue which have become repayable on demand as at 31 December 2018 (the "Bonds"), and approximately HK$115,422,000 are repayable within the next twelve months as disclosed in note 29.

In order to improve the Group's financial position, the directors of the Company have been implementing various measures as follows:

i. in negotiating with respective lenders to renew and extend existing borrowings upon their maturities;

ii. implementing an active cost-saving measures to control administrative costs through various channels to improve operating cash flows at a level sufficient to finance the working capital requirements of the Group.

Up to the date of the approval of the consolidated financial statements, in respect of the borrowings which were overdue as described above, the following measures were carried out:

(a) an extension agreement for the borrowings of HK$45,000,000 has been entered into between the Company and the holder of the Bonds to extend the repayment terms of overdue bonds to 30 September 2020, details of which are set out in note 29 to the consolidated financial statements;

(b) an extension agreement in connection with the unsecured loan of approximately HK$25,000,000 has been entered into between the Company and a substantial shareholder of the Company prior to its maturity date on 8 October 2019 to extend the repayment due date to 30 September 2020, details of which are set out in note 29 to the consolidated financial statements;

(c) the secured bank loan of HK$90,422,000 was revolved on 24 June 2019 with repayment due date extended to 19 June 2020 pursuant to a loan revolving agreement entered into with the bank, details of which are set out in note 29 to the consolidated financial statements.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(b) Material uncertainties relating to the Group's ability to continue as a going concern (Continued)

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome and implementation of the above measures to be undertaken by the Group. The directors of the Company are of the opinion that, taking into account the above measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of issuance of these consolidated financial statements. The directors of the Company are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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

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

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

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

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year (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 (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, whereby the aggregate effect of all of the modifications was reflected at the date of initial application. 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 which arise from contracts with customers within the scope of HKFRS 15:

At a point in time:

- Revenue from sales of toy products

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 6 and 4 respectively.

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

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

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 does not have a significant impact on the timing and amounts of revenue recognised nor the accumulated losses at 1 January 2018.

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	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
	HK$'000	*HK$'000* *(Note)*	*HK$'000*
Current liabilities			
Other payables and accruals	44,908	(2,242)	42,666
Contract liabilities	–	2,242	2,242

Note: As at 1 January 2018, deposits received from customers of trading of toy products business of HK$2,242,000, previously included in other payables and accruals, were reclassified to contract liabilities.

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 its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

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

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

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

Impact on the consolidated statement of financial position

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Current liabilities			
Other payables and accruals	54,041	1,745	55,786
Contract liabilities	1,745	(1,745)	–

Impact on the consolidated statement of cash flows

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Operating activities			
Decrease in other payables and accruals	(12,165)	(497)	(12,662)
Decrease in contract liabilities	(497)	497	–

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

New and amendments to HKFRSs that are mandatorily effective for the current year (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 4.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	**Loan receivables** HK$'000	**Accumulated losses** HK$'000
Closing balance at 31 December 2017 – HKAS 39		16,159	(1,136,461)
Effect arising from initial application of HKFRS 9:			
Impairment under ECL model	*(ii)*	(3,258)	(3,258)
Opening balance at 1 January 2018		12,901	(1,139,719)

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

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

HKFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes:

(i) Financial assets at fair value through profit or loss ("FVTPL")

The Group has reassessed its investments in equity securities classified as trading securities under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK$27,579,000 of the Group's investments were held for trading and continued to be measured at FVTPL.

There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

(ii) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Trade receivables are grouped based on past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

For loan receivables, impairment of loan receivables is assessed on 12-month ECL ("12m ECL") basis when there had been no significant increase in credit risk since initial recognition, otherwise the provision will be based on the lifetime ECL.

ECL for other financial assets at amortised cost, including pledged bank deposits, bank balances, loan receivables and other receivables, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition, except for loan 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, additional credit loss provision of HK$3,258,000 has been recognised against accumulated losses. The additional loss provision is charged against the loan receivables.

Further details on the Group's accounting policy for accounting for credit losses are set out in note 4.

3. 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[4]
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[3]
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[5]
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material[2]
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 1 January 2020.
3 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.
4 Effective for annual periods beginning on or after 1 January 2021.
5 Effective for annual periods beginning on or after a date to be determined.

Except for the new HKFRS 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.

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

New and amendments to HKFRSs in issue but not yet effective (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.

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$8,591,000 as disclosed in note 36. 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.

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

HKFRS 16 "Leases" (Continued)

In addition, the Group currently considers refundable rental deposits paid of HK$985,000 and refundable rental deposits received of HK$829,000 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 accumulated losses without restating comparative information.

4. 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 Listing Rules on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 "Leases", 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.

4. 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.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3) (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

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 Group and when specific criteria have been met for each of the Group's activities, as described below.

Goods, services and interests

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

Mould 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Group as lessee

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

Leasehold land and building

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid land premiums” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Borrowing costs

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

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries in accordance with the rules of the MPF Scheme and are recognised as an expense when employees have rendered services entitling them to the contribution payable.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain amounts for the employees in the PRC, pursuant to the local municipal government regulations. The contributions are recognised as an expense when employees have rendered services entitling them to the contribution.

4. 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.

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services 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 of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments 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 the share options 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 options reserve will be transferred to accumulated losses. 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 options reserve will be transferred to accumulated losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of 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 and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost or fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Property, plant and equipment measured using revaluation model

Any revaluation increase arising from revaluation of property, plant and equipment is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognise in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated losses.

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

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.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties measured using the fair value model

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible assets

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

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset 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, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. 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.

Provisions

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

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

Financial instruments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)

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

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("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 fair value through other comprehensive income ("FVTOCI") as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4. 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 3) (Continued)

(i) Amortised cost and interest income

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

(ii) Financial assets at FVTPL

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, loan receivables, other receivables 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. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 3) (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 3) (Continued)

(i) Significant increase in credit risk (Continued)

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

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

(ii) Definition of default

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 3) (Continued)

(iii) Credit-impaired financial assets

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

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

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

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

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

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 3) (Continued)

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans receivables are assessed for expected credit losses on an individual basis);
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

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

(i) Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(i) Financial assets at FVTPL (Continued)

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other income, gains and losses'" line item. Fair value is determined in the manner described in note 39c.

(ii) Loans and receivables

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a 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 of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities including borrowings, trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

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

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has recognised deferred tax on changes in fair value of investment property taking into account the land appreciation tax in the PRC which the Group will be subject to on the fair value changes of the investment property on disposal.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

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

Deferred tax asset

As at 31 December 2018, a deferred tax asset of HK$8,808,000 (31 December 2017 restated: HK$8,602,000) in relation to unused tax losses for an operating subsidiary has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of Renminbi ("RMB") 23,688,000 (equivalent to approximately HK$27,033,000) (2017: RMB17,612,000 (equivalent to approximately HK$21,069,000)) for non-operating subsidiaries 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 assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Fair value measurement and valuation processes of the investment properties

The investment properties are carried in the consolidated statement of financial position at their fair values at the end of each reporting period as disclosed in note 18. The fair values have been based on a valuation on the properties conducted by an independent firm of professional valuer using property valuation techniques which involve certain assumptions of market conditions.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Fair value measurement and valuation processes of the investment properties (Continued)

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent they are available. Where Level 1 inputs are not available, the Group engages third party qualified professional valuer to perform the valuation of the Group's investment property. At the end of each reporting period, the management of the Group works closely with the qualified external valuer to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The management of the Group first considers and adopts 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 adopts valuation techniques that include Level 3 inputs. Where there is a material change in the fair values of the investment properties, the causes of the fluctuations are reported to the board of directors of the Company. Changes to assumptions and inputs would result in changes in the fair values of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in profit or loss.

Information about the valuation techniques and inputs used in determining the fair values of the Group's investment properties are disclosed in note 18.

Fair value measurement and valuation processes of the leasehold buildings

The leasehold buildings are stated at revalued amount less accumulated depreciation in the consolidated statement of financial position at the end of each reporting period as disclosed in note 16. The revalued amount has been based on a valuation on the buildings conducted by an independent firm of professional valuer using property valuation techniques which involve certain assumptions of market conditions.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Fair value measurement and valuation processes of the leasehold buildings (Continued)

In estimating the revalued amount of the Group's leasehold buildings, the Group uses market-observable data to the extent they are available. Where Level 1 inputs are not available, the Group engages third party qualified professional valuer to perform the valuation of the Group's leasehold buildings. At the end of each reporting period, the management of the Group works closely with the qualified external valuer to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The management of the Group first considers and adopts 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 adopts valuation techniques that include Level 3 inputs. Where there is a material change in the revalued amount of the leasehold buildings, the causes of the fluctuations are reported to the board of directors of the Company. Changes to assumptions and inputs would result in changes in the revalued amount of the Group's leasehold buildings and corresponding adjustments to the amount of gain or loss reported in other comprehensive income.

Information about the valuation techniques and inputs used in determining the revalued amount of the Group's leasehold buildings are disclosed in note 16.

Impairment of property, plant and equipment and prepaid land premiums

The recoverable amount of an asset is the greater of its fair value less cost 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, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods. The carrying amounts of the property, plant and equipment and prepaid land premiums as at the end of the reporting period are HK$126,570,000 and HK$3,872,000 (2017: HK$123,283,000 and HK$4,016,000) respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Valuation of inventories

The management of the Group reviews ageing analysis and also carries out inventory review on a product-by-product basis with reference to its plans of markdown or disposal at the end of each reporting period and writes down obsolete and slow-moving inventory items identified that are no longer suitable for use in production or for sale. Where the actual net realisable values of the inventories are less than expected, further write down of inventories may arise.

During the year ended 31 December 2018, write down of inventories of HK$2,749,000 (2017: HK$11,146,000) was charged to profit or loss. As at 31 December 2018, the carrying amount of the Group's inventories is HK$89,424,000 (2017: HK$83,987,000).

Provision of ECL for trade receivables

For trade receivables, the Group applies the simplified approach to provide for ECL as prescribed by HKFRS 9, which requires the use of the lifetime ECL for all trade receivables, except for those debtors with significant outstanding balances or credit impaired. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management reassesses the provision at each balance sheet date.

The information about the ECL and the Group's trade receivables are disclosed in notes 22 and 39(b).

As at 31 December 2018, the gross carrying amount of trade receivables is HK$43,383,000 (2017: HK$114,700,000), and the provision of ECL is HK$138,000 (2017: allowance for doubtful debts is nil).

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Provision of ECL for loan receivables

Before the application of HKFRS 9 on 1 January 2018, when there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Upon application of HKFRS 9, impairment of loan receivables is assessed on 12m ECL basis when there had been no significant increase in credit risk since initial recognition. However, when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL. Assessment are done based on the Group's historical credit loss experience, general conditions, internal credit ratings and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The provision of ECL is sensitive to changes in estimates.

The information about the ECL and the Group's loan receivables are disclosed in notes 3, 19 and 39(b), respectively.

As at 31 December 2018, the gross carrying amount of loan receivables is HK$23,800,000 (2017: HK$16,159,000), and the provision of ECL is HK$5,303,000 (2017: nil).

6. REVENUE AND OPERATING SEGMENTS

Revenue represents revenue arising on sale of toy products for the year. The revenue relates to revenue from contracts with customers which is within the scope of HKFRS 15 for the year ended 31 December 2018. The amounts for the year ended 31 December 2017 were recognised under HKAS 18 and other interpretations. All revenue is recognised at a point in time upon delivery of the goods to customers.

The Group manufactured toy products in accordance with the performance obligations as set out in each sales contracts with its customers. The performance obligations in sales contracts have an original expected duration of one year or less. The Group has applied the practical expedient in HKFRS 15 and hence information about the Group's remaining performance obligations that are unsatisfied (or partially satisfied) as of the end of the reporting period is not disclosed. The Group recognised the incremental costs of obtaining a contract as an expense when incurred since the amortisation period of the asset that the Group otherwise would have recognised was one year or less.

6. REVENUE AND OPERATING SEGMENTS (Continued)

	2018 HK$'000	2017 HK$'000
Revenue from sales of finished goods of toy products	**636,882**	589,933

The Group is organised and its businesses are managed by divisions, which are a mixture of both business lines and geographical locations. Information reported internally to the executive directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and performance assessment of segment performance focuses on types of goods or services delivered or provided. The Group has presented the following three reportable segments. No operating segments have been aggregated in arriving at the following reportable segments of the Group.

1. Securities investments: this segment derives its revenue from dividends received from equity securities investments.

2. Toys: this segment derives its revenue from manufacturing for sale of toys.

3. Medical and health: this segment is under development stage in which research and development expenses for the medical and health technology development have been incurred.

The chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

All assets are allocated to reportable segments other than refundable deposits, certain property, plant and equipment, certain prepayments and certain bank balances and cash, which are grouped as unallocated corporate assets.

All liabilities are allocated to reportable segments other than certain accruals, which are grouped as unallocated corporate liabilities.

Segment (loss) profit before tax excludes unallocated interest income and unallocated corporate expenses which are not directly attributable to the business activities of any operating segment.

6. REVENUE AND OPERATING SEGMENTS (Continued)

(a) Segment revenue, results, assets and liabilities

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

For the years ended 31 December 2018 and 2017

	Securities investments		Toys		Medical and health		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue								
Revenue from external customers	**–**	–	**636,882**	589,933	**–**	–	**636,882**	589,933
Reportable segment (loss) profit before tax	**(10,001)**	(5,922)	**7,396**	15,490	**(1,972)**	(12,973)	**(4,577)**	(3,405)
Unallocated corporate income							**17,026**	7,281
Unallocated corporate expenses							**(156,802)**	(71,701)
Loss before tax							**(144,353)**	(67,825)
Other segment information (included in the measure of segment profit or loss or regularly provided to chief operating decision maker)								
Depreciation of property, plant and equipment	**–**	–	**(8,169)**	(7,985)	**–**	–	**(8,169)**	(7,985)
Amortisation of prepaid land premiums	**–**	–	**(144)**	(146)	**–**	–	**(144)**	(146)
Provision of ECL for trade receivables	**–**	–	**(138)**	–	**–**	–	**(138)**	–
Write-off on trade receivables	**–**	–	**(256)**	–	**–**	–	**(256)**	–
Write down of inventories, net	**–**	–	**(2,749)**	(11,146)	**–**	–	**(2,749)**	(11,146)
Gain (loss) on disposal of property, plant and equipment, net	**–**	–	**129**	(16)	**–**	–	**129**	(16)
Gain on disposal of a prepaid land premium	**–**	–	**–**	3,625	**–**	–	**–**	3,625
Changes in fair value of financial assets at FVTPL	**(9,999)**	(7,016)	**–**	–	**–**	–	**(9,999)**	(7,016)
Bank interest income	**–**	–	**454**	38	**–**	–	**454**	38
Interest expense	**–**	–	**(6,044)**	(9,108)	**–**	–	**(6,044)**	(9,108)
Research and development expenses	**–**	–	**–**	–	**(1,972)**	(6,389)	**(1,972)**	(6,389)
Purchases of property, plant and equipment	**–**	–	**12,395**	8,463	**–**	–	**12,395**	8,463

6. REVENUE AND OPERATING SEGMENTS (Continued)

(b) Segment assets and liabilities

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

As at 31 December 2018

	Securities investments *HK$'000*	Toys *HK$'000*	Medical and health *HK$'000*	Total *HK$'000*
Reportable segment assets	**17,580**	**302,466**	**–**	**320,046**
Unallocated corporate assets				**204,800**
Total assets				**524,846**
Reportable segment liabilities	**–**	**(283,438)**	**–**	**(283,438)**
Unallocated corporate liabilities				**(77,071)**
Total liabilities				**(360,509)**

As at 31 December 2017

	Securities investments *HK$'000*	Toys *HK$'000*	Medical and health *HK$'000*	Total *HK$'000*
Reportable segment assets	27,579	391,049	–	418,628
Unallocated corporate assets				334,224
Total assets				752,852
Reportable segment liabilities	–	(360,108)	–	(360,108)
Unallocated corporate liabilities				(59,576)
Total liabilities				(419,684)

6. REVENUE AND OPERATING SEGMENTS (Continued)

(c) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue and (ii) the Group's non-current assets including property, plant and equipment, prepaid land premiums, investment properties and deposit paid for refurbishment of properties. The geographical location of customers refers to the customers' place of domicile. The geographical locations of property, plant and equipment, prepaid land premiums, investment properties and deposit paid for refurbishment of properties are based on the physical location of the asset under consideration.

	Revenue from external customers		Non-current assets	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**35,860**	20,437	**245**	1,625
The PRC	**–**	–	**235,966**	292,895
United States	**551,242**	506,519	**–**	–
Europe	**45,168**	47,430	**–**	–
Japan	**4,612**	15,547	**–**	–
	636,882	589,933	**236,211**	294,520

(d) Information about major customers

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

	2018	2017
	HK$'000	*HK$'000*
Revenue from manufacturing for sale of toys segment		
Customer A	**488,474**	446,921

7. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**720**	63
Loan interest income	**2,965**	2,873
Changes in fair value of investment properties	**8,979**	2,146
Net foreign exchange gain (loss)	**2,077**	(10,920)
Mould income	**79**	2,907
Rental income	**1,529**	2,237
Compensation loss for refurbishment of properties	**(437)**	–
Gain (loss) on disposal of property, plant and equipment, net	**129**	(16)
Net agency commission income *(note 24)*	**445**	–
Gain on disposal of prepaid land premium	**–**	3,625
Sundry income	**103**	2,558
	16,589	5,473

8. IMPAIRMENT LOSSES AND PROVISION OF EXPECTED CREDIT LOSSES

	2018 *HK$'000*	2017 *HK$'000*
Impairment loss on deposit paid for refurbishment of properties *(note a)*	**64,627**	–
Impairment loss on other receivables *(note a)*	**39,315**	–
Impairment loss on deposit paid for purchase of property, plant and equipment *(note b)*	**–**	12,500
Provision of ECL for loan receivables *(notes 19 and 39(b))*	**2,045**	–
Provision of ECL for trade receivables *(notes 22 and 39(b))*	**138**	–
	106,125	12,500

Notes:

(a) On 17 February 2016, the Group, entered into a sale and purchase agreement (the "Acquisition Agreement") with third parties (the "Vendors") for the acquisition of certain assets and recognised certain liabilities through the acquisition of the entire equity interest of 宜諾科技(蘇州)有限公司 (Yi Nuo Technology (Suzhou) Co., Ltd., ("Yi Nuo")), a company established in the PRC, at a cash consideration of RMB64,500,000 (equivalent to approximately HK$74,500,000). The main assets of Yi Nuo are a parcel of land and the building thereon in Suzhou, Jiangsu Province, the PRC ("Suzhou Building") and a receivable amounting to RMB37,536,000 (equivalent to approximately HK$44,348,000) due from one of the Vendors ("Vendor B") which shall be settled within six months upon the completion of the acquisition according to payment schedule agreed with Vendor B (the "Receivable"). Out of the RMB64,500,000 (equivalent to approximately HK$74,500,000) cash consideration, RMB4,410,000 (equivalent to approximately HK$5,033,000) remained unsettled upon the completion of the acquisition. As at 31 December 2018 and 2017, the amount due from Vendor B and the aforementioned outstanding cash consideration remained unsettled.

As at 31 December 2018, the directors of the Company considered that the amount of the Receivable (net of consideration payable) owing from Vendor B was uncollectible and hence an impairment loss of RMB33,177,000 (equivalent to approximately HK$39,315,000) for such receivables owing from Vendor B after netting off against the remaining consideration payable due to Vendor B was recognised in consolidated profit or loss for the year ended 31 December 2018.

Furthermore, on 8 August 2016, the Group had entered into a refurbishment agreement with Vendor B for the Suzhou Building with a contract sum of RMB58,000,000 (equivalent to approximately HK$68,500,000), of which deposits of an aggregated amount of RMB54,700,000 (equivalent to approximately HK$64,627,000) were paid to the Vendor B during November and December 2016. As at 31 December 2018 and 2017 and up to the date of this report, the deposits were unutilised and the refurbishment work has not been completed. The Group has recognised an impairment loss of the deposits of RMB54,700,000 (equivalent to approximately HK$64,627,000) in its consolidated profit or loss for the year ended 31 December 2018 to fully write down the carrying amount of these deposits.

(b) The Group paid the deposit to an independent third party (the "Equipment Supplier") in prior year for the purchase of certain equipment. During the year ended 31 December 2017, the Group entered into a cancellation agreement with the Equipment Supplier to cancel the purchase and the Equipment Supplier agreed to refund the deposit in full by two instalments before the end of June 2017. However, no subsequent payment has been received from the Equipment Supplier in accordance with the cancellation agreement. In the opinion of the directors of the Company, the collectability of this amount receivable from the Equipment Supplier was doubtful and impairment loss was recognised accordingly in prior year. No subsequent settlement was received in current year.

9. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**3,195**	3,404
Interest on corporate bonds	**2,701**	2,700
Interest on revolving loans	**2,849**	5,704
	8,745	11,808

10. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
(Over)underprovision in prior years	**(872)**	6,012
PRC Enterprise Income Tax		
Current year	**2,565**	3,131
Underprovision in prior years	**17**	212
	1,710	9,355
Deferred tax expense *(note 30)*	**7,562**	553
Income tax expense	**9,272**	9,908

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 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amounts involved arising from the implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The tax affairs of a subsidiary (incorporated in Hong Kong) of the Group for the period starting from 1 January 2004 were under field audit by the Hong Kong Inland Revenue Department ("IRD"). In prior year, the subsidiary submitted a reply to the IRD where the subsidiary agreed to withdraw certain deductions claims made in prior years. Based on the directors' estimation, additional provision of income tax of HK$6,012,000 had been provided during the year ended 31 December 2017.

10. INCOME TAX EXPENSE (Continued)

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

The Group is liable to withholding taxes on dividends distributed by the subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate of 5% is applied to the Group as there is a double tax treaty between the PRC and Hong Kong and the relevant Hong Kong companies should be qualified for the preferential tax rate based on the prescribed conditions.

Taxation arising in other jurisdictions is calculated at the rates of tax prevailing in the relevant jurisdictions.

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

	2018	2017
	HK$'000	*HK$'000*
Loss before tax	**(144,353)**	(67,825)
Notional tax on loss before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(32,080)**	(12,066)
Tax effect of tax losses not recognised	**2,789**	7,755
Tax effect of income not taxable for tax purpose	**(53)**	(1,320)
Tax effect of expenses not deductible for tax purpose	**33,992**	10,347
Tax effect of deductible temporary differences not recognised	**366**	–
Effect of withholding tax at 5% on the distributable profits of the Company's subsidiaries in the PRC	**718**	448
Deferred tax effects of land appreciation tax	**4,395**	–
(Over)underprovision in prior years	**(855)**	6,224
Utilisation of deductible temporary differences previously not recognised	**–**	(816)
Utilisation of tax losses previously not recognised	**–**	(664)
Income tax expense for the year	**9,272**	9,908

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2018 *HK$'000*	2017 *HK$'000*
Employee benefit expense (including directors' remunerations):		
Wages and salaries	**131,325**	149,823
Other employee benefits	**4,157**	3,202
Contributions to defined contribution retirement plans	**17,463**	12,101
	152,945	165,126
Sub-contracting labour cost	**54,016**	51,288
Auditors' remuneration	**4,009**	2,000
Cost of inventories recognised as an expense (included in cost of sales)	**560,588**	483,543
Depreciation of property, plant and equipment	**9,588**	9,086
Amortisation of prepaid land premiums	**144**	146
Write-off on trade receivables	**256**	–
Write down of inventories, net (included in cost of sales)	**2,749**	11,146
Operating lease charges in respect of land and buildings	**6,153**	5,853

Included in other operating expenses is an amount of HK$484,000 (2017: HK$10,016,000) which represented professional fees incurred for consulting and due diligence services for various potential investment projects that the Group planned to invest in the future.

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

	Notes	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
2018					
Executive directors:					
Mr. Xing Wei	*(i)*	–	4,364	18	4,382
Mr. Wei Guo	*(ii)*	–	1,999	4	2,003
		–	6,363	22	6,385
Non-executive director:					
Mr. Lin Shaopeng	*(iii)*	120	1,704	21	1,845
		120	1,704	21	1,845
Independent non-executive directors:					
Mr. Li Fang	*(iv)*	120	–	–	120
Mr. Lau Shun Pong Johnson	*(v)*	120	–	–	120
Mr. Lai Ming Wai	*(vi)*	120	–	–	120
		360	–	–	360
Total directors' and chief executive's emoluments		480	8,067	43	8,590

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

	Notes	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
2017					
Executive directors:					
Mr. Xing Wei	*(i)*	–	2,528	5	2,533
Mr. Zhang Jack Jiyei	*(vii)*	–	11,033	17	11,050
Mr. Wei Guo	*(ii)*	–	135	–	135
		–	13,696	22	13,718
Non-executive directors:					
Mr. Lo Ming Chi, Charles	*(viii)*	116	–	6	122
Mr. Lin Shaopeng	*(iii)*	5	1,308	18	1,331
		121	1,308	24	1,453
Independent non-executive directors:					
Mr. Wong Kee Fung Kenneth	*(ix)*	100	–	–	100
Mr. Wong Kwok Tai	*(x)*	116	–	–	116
Mr. Li Fang	*(iv)*	120	–	–	120
Mr. Lau Shun Pong Johnson	*(v)*	20	–	–	20
Mr. Lai Ming Wai	*(vi)*	5	–	–	5
		361	–	–	361
Total directors' and chief executive's emoluments		482	15,004	46	15,532

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' 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.

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

Notes:

(i) Appointed on 8 May 2017 and removed on 10 May 2019.

(ii) Appointed on 16 November 2017 and removed on 10 May 2019.

(iii) Appointed on 18 December 2017.

(iv) Resigned on 7 March 2019.

(v) Appointed on 31 October 2017 and resigned on 10 April 2019.

(vi) Appointed on 18 December 2017 and resigned on 11 April 2019.

(vii) Ceased to be chief executive on 12 October 2017 and resigned as an executive director on 16 November 2017.

(viii) Resigned on 18 December 2017.

(ix) Deceased on 30 October 2017.

(x) Resigned on 18 December 2017.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

As at 31 December 2018 and 2017, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 32 to the Group's consolidated financial statements.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2017: two) directors, details of whose remuneration are set out in note 12 above. Details of the remuneration of the remaining two (2017: three) individuals are as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Salaries, allowances and benefits in kind	**3,896**	6,639
Retirement benefit scheme contributions	**78**	72
	3,974	6,711

13. FIVE HIGHEST PAID EMPLOYEES (Continued)

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

	Number of individuals	
	2018	2017
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	2

14. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company for both years, nor has any dividend been proposed since the end of the reporting period.

15. LOSS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(153,625)**	(77,733)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,661,865**	3,456,933

The computation of diluted loss per share for the years ended 31 December 2018 and 2017 does not assume the exercise of share options granted by the Company since such assumed exercise would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
2018							
At 1 January 2018							
Cost or valuation	103,000	1,015	59,105	34,673	6,560	–	204,353
Accumulated depreciation	–	(791)	(47,472)	(29,046)	(3,761)	–	(81,070)
Carrying amount	103,000	224	11,633	5,627	2,799	–	123,283
Year ended 31 December 2018							
Opening net carrying amount	103,000	224	11,633	5,627	2,799	–	123,283
Additions	–	231	6,662	4,030	580	1,329	12,832
Disposals	–	–	(193)	(155)	(23)	–	(371)
Surplus on revaluation	1,678	–	–	–	–	–	1,678
Depreciation	(3,678)	(345)	(2,083)	(2,639)	(843)	–	(9,588)
Exchange realignment	–	(5)	(762)	(364)	(88)	(45)	(1,264)
Closing net carrying amount	101,000	105	15,257	6,499	2,425	1,284	126,570
At 31 December 2018							
Cost or valuation	101,000	1,235	60,227	36,486	6,355	1,284	206,587
Accumulated depreciation	–	(1,130)	(44,970)	(29,987)	(3,930)	–	(80,017)
Carrying amount	101,000	105	15,257	6,499	2,425	1,284	126,570
Analysis of cost or valuation:							
At cost	–	1,235	60,227	36,486	6,355	1,284	105,587
At valuation	101,000	–	–	–	–	–	101,000
	101,000	1,235	60,227	36,486	6,355	1,284	206,587

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2017						
At 1 January 2017						
Cost or valuation	96,000	994	53,292	29,450	5,382	185,118
Accumulated depreciation	–	(412)	(45,945)	(25,220)	(3,011)	(74,588)
Carrying amount	96,000	582	7,347	4,230	2,371	110,530
Year ended 31 December 2017						
Opening net carrying amount	96,000	582	7,347	4,230	2,371	110,530
Additions	–	–	5,463	4,045	1,094	10,602
Disposals	–	–	(328)	(73)	(8)	(409)
Surplus on revaluation	10,310	–	–	–	–	10,310
Depreciation	(3,310)	(367)	(1,745)	(2,936)	(728)	(9,086)
Exchange realignment	–	9	896	361	70	1,336
Closing net carrying amount	103,000	224	11,633	5,627	2,799	123,283
At 31 December 2017						
Cost or valuation	103,000	1,015	59,105	34,673	6,560	204,353
Accumulated depreciation	–	(791)	(47,472)	(29,046)	(3,761)	(81,070)
Carrying amount	103,000	224	11,633	5,627	2,799	123,283
Analysis of cost or valuation:						
At cost	–	1,015	59,105	34,673	6,560	101,353
At valuation	103,000	–	–	–	–	103,000
	103,000	1,015	59,105	34,673	6,560	204,353

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for leasehold buildings and construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold buildings	Over the remaining lease terms of 27 years (2017: 28 years)
Leasehold improvements	10% to 33%
Plant and machinery	10% to 15%
Furniture, fixtures and office equipment	15% to 20%
Motor vehicles	20%

(a) The carrying amounts of the leasehold buildings of the Group at 31 December 2018 would have been approximately HK$39,954,000 (2017: HK$41,433,000) had they been carried at cost less accumulated depreciation.

(b) At 31 December 2018, the Group's leasehold buildings in the PRC with carrying amounts of approximately HK$101,000,000 (2017: HK$103,000,000) were pledged to secure general banking facilities granted to the Group (note 29).

(c) The leasehold buildings situated in the PRC of HK$101,000,000 (2017: HK$103,000,000) are located on the leasehold land as disclosed in note 17 to the consolidated financial statements.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Fair value measurement of the Group's leasehold buildings

The Group's leasehold buildings were revalued on 31 December 2018 and 2017 by RHL Appraisal Limited, an independent qualified professional valuer not connected to the Group.

The fair value of the leasehold buildings was determined based on the depreciated replacement cost approach calculated based on the current cost of replacement of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The valuations were carried out by RHL Appraisal Limited, which has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's finance department worked closely and had discussions with the surveyors on the valuation assumptions and valuation results when the valuation was performed at the annual reporting date. There has been no change to the valuation technique during the year.

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

Details of the Group's leasehold buildings and information about the fair value hierarchy as at the end of the reporting period are as follows:

Fair value hierarchy

The following table presents the fair value of the Group's leasehold buildings measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement". The leasehold buildings located in the PRC are measured at Level 3 fair value category as at 31 December 2018 and 2017.

	Fair value hierarchy	**Fair value as at 31 December 2018**	Fair value hierarchy	Fair value as at 31 December 2017
		HK$'000		*HK$'000*
Leasehold buildings in the PRC	**Level 3**	**101,000**	Level 3	103,000

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Fair value measurement of the Group's leasehold buildings (Continued)

Information about Level 3 fair value measurements

For the years ended 31 December 2018 and 2017

	Valuation techniques	Significant unobservable input	Range	Weighted average
Leasehold buildings in the PRC	Depreciated replacement cost approach	General increase rate of construction costs	5% to 10% (2017: 5% to 10%)	7% (2017: 7%)

A significant increase in the general increase rate of construction cost used would result in a significant increase in fair value, and vice versa.

17. PREPAID LAND PREMIUMS

	2018 HK$'000	2017 HK$'000
Current portion	**143**	143
Non-current portion	**3,729**	3,873
	3,872	4,016

During the year ended 31 December 2017, the Group disposed of a portion of prepaid land premiums with carrying amount of HK$236,000 at a consideration of HK$3,861,000. Gain on disposal of the portion of prepaid land premiums of HK$3,625,000 was recognised in profit or loss during the year ended 31 December 2017 (2018: nil).

At 31 December 2018, the Group's prepaid land premiums in the PRC with carrying amounts of approximately HK$3,872,000 (2017: HK$4,016,000) were pledged to secure general banking facilities granted to the Group (note 29).

The leasehold land is held under a medium term lease and is situated in the PRC.

18. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2017	37,631
Acquisition of assets through acquisition of subsidiaries *(note 34)*	56,692
Increase in fair value recognised in profit or loss	2,146
Exchange adjustments	5,457
At 31 December 2017	101,926
Increase in fair value recognised in profit or loss	8,979
Exchange adjustments	(4,993)
At 31 December 2018	105,912
Unrealised gain on property revaluation included in profit or loss (included in other income, gains and losses)	8,979

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes and land held for undetermined future use, which is regarded as held for capital appreciation purpose, 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 as at 31 December 2018 and 31 December 2017 has been arrived at on the basis of a valuation carried out on the respective dates by Roma Appraisals Limited, an independent qualified professional valuer not connected to the Group who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

In determining the fair values of the relevant properties, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the board of directors of the Company to explain the cause of fluctuations in the fair values of the investment properties.

18. INVESTMENT PROPERTIES (Continued)

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

	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Warehouse located in Suzhou, the PRC - completed properties	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average rate of RMB2,100 (2017: RMB1,755) per square metre per month.	A significant increase in the recent transaction price would result in a significant increase in fair value, and vice versa.
Leasehold land located in Suzhou, the PRC	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average rate of RMB420 (2017: RMB336) per square metre per month.	A significant increase in the recent transaction price would result in a significant increase in fair value, and vice versa.
Leasehold land located in Haikou, the PRC	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average rate of RMB566 (2017: RMB566) per square metre.	A significant increase in the recent transaction price would result in a significant increase in fair value, and vice versa.

18. INVESTMENT PROPERTIES (Continued)

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Fair value hierarchy	Fair value as at 31 December 2018 HK$'000	Fair value hierarchy	Fair value as at 31 December 2017 HK$'000
Located in Suzhou, the PRC				
Warehouse	**Level 3**	**30,358**	Level 3	26,558
Leasehold land held for capital appreciation	**Level 3**	**18,147**	Level 3	15,193
		48,505		41,751
Located in Haikou, the PRC				
Leasehold land held for capital appreciation	**Level 3**	**57,407**	Level 3	60,175

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

19. LOAN RECEIVABLES

	2018 HK$'000	2017 HK$'000
Fixed-rate loan receivables	**23,800**	16,159
Less: provision of ECL	**(5,303)**	–
	18,497	16,159
Analysed as		
Current	**4,510**	16,159
Non-current	**13,987**	–
	18,497	16,159

As at 31 December 2018, the loans are unsecured, carry interest at fixed rates which ranged from 10% to 12% (2017: 10% to 12%) per annum. Loans whose gross carrying values amounted to HK$16,000,000 are repayable more than one year and a loan of gross carrying value of HK$7,800,000 is repayable within one year (2017: all loans were repayable within one year). As at 31 December 2017, a loan receivable of approximately HK$8,359,000 is secured (2018: nil). As at 31 December 2018 and 2017, the loan receivables were neither past due nor impaired. Pursuant to loan agreements, the Group retains a discretionary right to demand the repayment from the borrowers in full before the maturity of the loans.

The Group has a policy for assessing the impairment on loan receivables on an individual basis. The assessment also includes evaluation of collectability and aging analysis of accounts and on the management's judgment, including the current creditworthiness and past collection history of each borrower. In determining the recoverability of the loan receivables, the Group considers any change in the credit quality of the loan receivables from the date credit was initially granted up to the reporting date. This includes assessing the credit history of the business, such as financial difficulties or default in payments and current market conditions.

19. LOAN RECEIVABLES (Continued)

During the year ended 31 December 2018, in determining the expected credit losses for these assets, the directors of the Company have taken into account the financial position of the counterparties as well as the future prospects of the industries in which the borrowers operate and considered various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The ECL is assessed individually for the counterparties.

Applying the ECL model, provision of ECL for loan receivables is assessed on 12m ECL basis when there has been no significant increase in credit risk since initial recognition. However, when there has been a significant increase in credit risk since origination, the provision will be based on the lifetime ECL. As a result, the gross carrying amount of HK$16,000,000 is assessed on 12m ECL basis whereas the gross carrying amount of HK$7,800,000 is assessed on the lifetime ECL. On the date of initial application of HKFRS 9, a provision of ECL of HK$3,258,000 was recognised in the opening accumulated losses as disclosed in note 3. The provision of ECL on the loan receivables further increased by HK$2,045,000 during the year ended 31 December 2018, details of which are set out in notes 3 and 39(b).

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for loan receivables.

No aging analysis is disclosed, as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of business of money lending.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 *HK$'000*	2017 *HK$'000*
Listed securities held for trading		
Equity securities listed in Hong Kong	**17,580**	27,579

At 31 December 2018, the Group has invested in four (2017: four) equity securities listed in Hong Kong. The fair values were based on quoted prices of the respective securities in active markets for identical assets.

At 31 December 2018 and 2017, no financial assets at FVTPL have been pledged as security.

21. INVENTORIES

	2018 *HK$'000*	2017 *HK$'000*
Raw materials	**23,847**	21,034
Work in progress	**41,175**	43,141
Finished goods	**24,402**	19,812
	89,424	83,987

22. TRADE RECEIVABLES

	2018 *HK$'000*	2017 *HK$'000*
Trade receivables, gross	**43,383**	114,700
Less: provision of ECL	**(138)**	–
Trade receivables, net	**43,245**	114,700

At as 31 December 2018, the gross carrying amount of trade receivables arising from contracts with customers amounted to approximately HK$43,383,000 (1 January 2018: HK$114,700,000).

22. TRADE RECEIVABLES (Continued)

The following is an aged analysis of trade receivables (net of provision of ECL) presented based on the invoice dates which are approximate to the revenue recognition date:

	2018	2017
	HK$'000	*HK$'000*
0 to 30 days	**29,817**	77,526
31 to 90 days	**13,413**	37,134
Over 90 days	**15**	40
	43,245	114,700

The Group's trading terms with its customers are mainly on credit with credit periods generally ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing.

Expected credit loss of trade receivables

At the end of the reporting period, the Group reviews trade receivables for evidence of impairment on both an individual and a collective basis. The provision of ECL for receivables is recognised based on the credit history of its customers, indication of financial difficulties, default in payments, and current market conditions. After the above assessment performed by the directors of the Company, a provision of ECL of HK$138,000 was provided for current year and the directors consider that the trade debtors are of good credit quality (2017: nil).

22. TRADE RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired

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

	2018 *HK$'000*	2017 *HK$'000*
Neither past due nor impaired	**42,903**	111,555
Past due but not impaired		
Less than 1 month past due	**342**	1,864
1 to 3 months past due	**–**	1,279
Over 3 months	**–**	2
	43,245	114,700

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired are related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. AMOUNT DUE FROM A RELATED COMPANY

Included in amount due from a related company is a balance of RMB200,000 (equivalent to approximately HK$228,000) (2017: nil) due from a company of which Mr. Wei Guo, an executive director of the Company, is the shareholder. The amount is in non-trade nature, unsecured, interest-free and repayable on demand. The amount is subsequently repaid in 2019.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Other receivable arising from acquisition of a subsidiary in Suzhou *(note 8(a))*	**–**	44,905
Other receivables arising from agency services *(note ii)*	**11,708**	–
Other receivables arising from subsidiaries in Hainan *(note i)*	**7,844**	–
Prepayments	**7,372**	2,228
Value-added tax recoverable arising from toys segment	**3,805**	11,128
Loan interest receivables	**1,921**	593
Rental deposits	**985**	1,567
Others	**1,586**	2,346
	35,221	62,767

Notes:

(i) During the year ended 31 December 2018, the Group's subsidiary established in Hainan, the PRC (the "Subsidiary") signed a service agreement with a business development and advertising agent (the "Debtor") in respect of a plan for developing a resort village in Hainan with a contract sum of approximately RMB2,150,000 and the Group paid a sum of RMB1,980,000 of which a sum of RMB1,380,000 (equivalent to approximately HK$1,575,000) was purported to be a prepayment to the service fee which was not utilised and was recorded as other receivable as at 31 December 2018 and RMB600,000 was recorded as service fee in profit or loss during the year ended 31 December 2018. A further payment of RMB0.89 million was made subsequent to the reporting period in January 2019. As disclosed in the announcement dated 6 May 2019 made by the Company regarding the resignation of the then auditor for the consolidated financial statements for the year ended 31 December 2018, the then auditor of the Company received a direct confirmation from the Debtor during their audit which indicated that the balances/ transactions (the "Transactions") involved arrangements with a former director of the Company (the "Ex-Director") that were not reflected in the books and records of the Subsidiary.

The Transactions entered with an intention to pursue business opportunities for the Group in Hainan, the deposits of RMB1,380,000 (equivalent to approximately HK$1,575,000) as at 31 December 2018 and the further payment of RMB893,000 (equivalent to approximately HK$1,019,000) made in January 2019, totally RMB2,273,000 (equivalent to approximately HK$2,594,000), were short-term advances made, under the control of the Ex- Director, to six parties through the Debtor, of which RMB400,000 was made to a related party of the Ex-Director. Subsequent to the end of the reporting period, certain recipients, including the related party with the Ex-Director, repaid the funds of RMB700,000 (equivalent to approximately HK$799,000) to the Group via the Debtor who also accepted that such amount would be used to settle its outstanding service fee, which was reduced to RMB1,300,000 (equivalent to approximately HK$1,484,000) as final settlement, with a further amount of RMB700,000 (equivalent to approximately HK$799,000) recognised to the profit or loss for the year ended 31 December 2018. Furthermore, in September 2019, the remaining RMB1,573,000 (equivalent to approximately HK$1,795,000) out of the RMB2,273,000 (equivalent to approximately HK$2,594,000) was repaid to the Subsidiary.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes: *(Continued)*

(i) During the period from April 2018 to July 2018, the Subsidiary entered into loan arrangements with five parties outside the Group for a sum of approximately RMB14,182,000 (equivalent to approximately HK$16,185,000) (the "Loans"), of which RMB200,000 (equivalent to approximately HK$228,000) was made to a related party of that Ex-Director. The Loans were unsecured, interest-free and repayable within 12 months from the date of drawn down. Before the end of the reporting period, an amount of RMB10,200,000 out of a loan made to a party of RMB10,359,000 million was repaid to the Subsidiary. The rest of the Loans totalling RMB3,982,000 (equivalent to approximately HK$4,543,000) including RMB200,000 (equivalent to approximately HK$228,000) due from a related company remained outstanding as at 31 December 2018. This outstanding amount was subsequently repaid to the Subsidiary in April 2019. Also, the Subsidiary entered into a consultancy service agreement with another counterparty in relation to the plan for developing a resort village in Hainan, and made a deposit paid of RMB1,700,000 (equivalent to approximately HK$1,940,000) and recorded as other receivables as at 31 December 2018. This consultancy service agreement was subsequently terminated in April 2019, and such deposit paid was refunded to the Subsidiary. Besides, there was a purchasing agreement amounting RMB1,360,000 (equivalent to approximately HK$1,552,000) entered by the Subsidiary for purchasing certain horses from overseas, of which the amount recorded as prepayment and was stated as its recoverable amount based on market information at RMB473,000 (equivalent to approximately HK$540,000) as at 31 December 2018.

Remaining balances included in above other receivables arising from subsidiaries in Hainan are sundry other receivables.

(ii) Receivables of United States dollar ("USD") 1,501,000 (equivalent to approximately HK$11,708,000) due from a counterparty was in relation to the Group's rendering of agency services for purchases and sales of chemical goods and such amount was subsequently settled after the end of the reporting period.

The Group recognised lifetime ECL for other receivables based on individually significant debtors or the ageing of debtors collectively that are not individually significant by reference to past default experience of the debtor at the reporting date.

25. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.001% to 1.2% per annum (2017: 0.001% to 0.3% per annum). The bank balances were deposited with banks with no recent history of default.

For the year ended 31 December 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Pledged bank deposits represented deposits pledged to a bank to secure banking facilities and bank borrowings granted to the Group. As at 31 December 2017, deposits amounting to HK$21,474,000 (2018: nil) were pledged to secure bank borrowings (note 29). The pledged bank deposits were released upon the settlement of relevant bank borrowings during the year ended 31 December 2018.

The interest rates on the pledged bank deposits was 0.001% per annum in 2017 (2018: nil).

26. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date.

	2018 HK$'000	2017 HK$'000
0 to 30 days	**56,155**	96,591
31 to 90 days	**38,964**	53,991
Over 90 days	**22,743**	20,793
	117,862	171,375

The trade payables are expected to be settled within one year.

27. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Deposit received for disposal of a subsidiary *(note a)*	**25,891**	–
Accrued staff cost	**12,503**	16,306
Accruals	**9,768**	10,683
Other payables	**3,913**	8,656
Consideration payable for acquisition of Hainan Zhongzhi (as defined in *note 34*)	**1,137**	1,137
Consideration payable for acquisition of Yi Nuo *(note 8(a))*	**–**	5,033
Tenant deposits received	**829**	851
Deposits received from customers *(note b)*	**–**	2,242
	54,041	44,908

27. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

(a) On 28 December 2017, the Group entered into a sale and purchase agreement (the "Disposal Agreement") with an independent third party (the "Purchaser") to conditionally sell the entire share capital of Bright Triumph Development Limited, a company incorporated in the British Virgin Islands with limited liability and being the investment holding company of Yi Nuo, at a consideration of HK$142,000,000. On 19 March 2018, the Group received a deposit of RMB22,686,000 (equivalent to approximately HK$25,891,000) out of RMB28,400,000 as prescribed in the Disposal Agreement from the Purchaser.

However, in the opinion of the directors of the Company, the Purchaser was not in a position to proceed to the completion. On 23 April 2019, following negotiations, the parties mutually agreed to terminate the Disposal Agreement, and the Group and the Purchaser entered into a termination agreement (the "Termination Agreement"), pursuant to which the parties have agreed to terminate the Disposal Agreement with immediate effect, the respective rights and obligations of each party thereunder shall cease and no party to the Disposal Agreement shall have any claim against any other party. Pursuant to the Termination Agreement, the Group is required to refund the deposit received of RMB22,686,000 to the Purchaser. In April 2019, the Group has refunded part of the deposit of approximately RMB18,320,000 (equivalent to approximately HK$20,908,000) to the Purchaser.

(b) As at 1 January 2018, deposits received from customers of trading of toys products business of HK$2,242,000 previously included in trade and other payables were reclassified to contract liabilities (note 28).

28. CONTRACT LIABILITIES

	31 December 2018 *HK$'000*	1 January 2018* *HK$'000*
Deposits received from customers	**1,745**	2,242

* The amount in this column is after the adjustment arising from the application of HKFRS 15.

Revenue from customers for trading of toy products of HK$2,242,000 recognised during the year ended 31 December 2018 was included in the contract liability balance at the beginning of the year.

29. BORROWINGS

	2018 Contractual interest rate (%)	2018 HK$'000	2017 Contractual interest rate (%)	2017 HK$'000
Bank loans – secured *(note a)*	**Fixed rates of 2.5% to 4.35% per annum**	**90,422**	Fixed rates of 2.5% to 5.7% per annum	104,662
Corporate bonds – secured *(note b)*	**Fixed rates of 6.0% per annum**	**45,000**	Fixed rates of 6.0% per annum	45,000
Sub-total of secured borrowings		**135,422**		149,662
Revolving loans – unsecured *(note c)*	**Fixed rates of 10.0% per annum**	**25,000**	Fixed rates of 10.0% per annum	35,000
		160,422		184,662
Analysed as				
Current		**160,422**		184,662
		160,422		184,662

The above loans are measured at amortised costs.

Notes:

(a) The bank borrowings were secured by:

(i) mortgage over the Group's leasehold buildings and prepaid land premiums with aggregate carrying amount of approximately HK$101,000,000 (2017: HK$103,000,000) and approximately HK$3,872,000 (2017: HK$4,016,000) respectively, as disclosed in notes 16 and 17, respectively; and

(ii) pledge over the Group's bank deposits in note 25 of approximately HK$21,474,000 as at 31 December 2017 (2018: nil); and

The total banking facilities granted to the Group amounted to RMB110,000,000 (equivalent to approximately HK$125,542,000) (2017: RMB90,000,000 (equivalent to approximately HK$107,668,000)) of which approximately HK$90,422,000 (2017: HK$104,662,000) were utilised as at 31 December 2018.

On 24 June 2019, the maturity date of the bank loans is subsequently extended to 19 June 2020.

(b) On 7 December 2016, corporate bonds amounted to HK$45,000,000 were issued by the Company, bearing interest of 6% per annum and payable semi-annually in arrears, and with maturity in two years, of which are secured by pledge of shares of a subsidiary of the Company.

29. BORROWINGS (Continued)

Notes: (Continued)

(b) The corporate bonds had become due and payable on its maturity date of 6 December 2018. As at 31 December 2018, the Group defaulted on the repayment of the corporate bonds and further negotiated with the bond holder for extension. On 23 August 2019, by successfully entering into a deed of waiver and a supplemental deed poll to the bond instrument executed by the Company, the Group was discharged and released from the obligation and liabilities which arose from the default and the maturity date has been extended to 30 September 2020. The corporate bonds then bear interest at 6.75% per annum from 7 December 2018 to 30 September 2020.

(c) As at 31 December 2018 and 2017, the Group's revolving loans utilised with carrying amount of HK$25,000,000 (2017: HK$35,000,000), repayable within one year, were granted by a substantial shareholder of the Company and guaranteed by the Company. The revolving loans had unutilised amount of HK$25,000,000 (2017: HK$5,000,000) as at 31 December 2018. Prior to the maturity date of such revolving loans, the Group has entered into an extension agreement to further extend the maturity date to 30 September 2020.

30. DEFERRED TAX (ASSETS) LIABILITIES

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

	2018 ***HK$'000***	2017 *HK$'000*
Deferred tax assets	**(8,808)**	–
Deferred tax liabilities	**24,306**	9,060
	15,498	9,060

30. DEFERRED TAX (ASSETS) LIABILITIES (Continued)

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

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Tax losses HK$'000	Withholding tax HK$'000	Total HK$'000
Deferred tax arising from:					
At 1 January 2017	1,835	6,444	(934)	742	8,087
Deferred tax charged to profit or loss for the year *(note 10)*	–	105	–	448	553
Deferred tax charged to other comprehensive income for the year	–	420	–	–	420
At 31 December 2017	1,835	6,969	(934)	1,190	9,060
Reclassification *(note)*	(1,808)	9,476	(7,668)	–	–
At 1 January 2018	27	16,445	(8,602)	1,190	9,060
Deferred tax charged (credited) to profit or loss for the year *(note 10)*	30	7,020	(206)	718	7,562
Deferred tax credited to other comprehensive income for the year	–	(800)	–	–	(800)
Exchange realignment	–	(245)	–	(79)	(324)
At 31 December 2018	**57**	**22,420**	**(8,808)**	**1,829**	**15,498**

Note: In the opinion of the directors of the Company, the components included in the deferred tax assets and liabilities were restated to conform with the relevant tax bases as at the end of the year ended 31 December 2017. This change in the respective components included in the deferred tax assets and liabilities does not affect previously reported financial results of the Group for the year ended 31 December 2017.

At the end of the reporting period, the Group has unused tax losses arising in Hong Kong of HK$173,055,000 (2017: HK$164,532,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$53,380,000 (2017: HK$52,133,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$119,675,000 (2017: HK$112,399,000) due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

As at 31 December 2018, the Group has tax losses arising in the PRC of RMB23,688,00 (equivalent to approximately HK$27,033,000) (2017: RMB17,612,000 (equivalent to approximately HK$21,069,000)) available for offsetting against future profits that may be carried forward for up to five years for EIT purpose. Deferred tax assets on these tax losses have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which losses arose.

31. SHARE CAPITAL OF THE COMPANY

	Number of shares		Amount	
	2018	2017	**2018**	2017
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January and 31 December	**7,000,000**	7,000,000	**700,000**	700,000
Issued and fully paid:				
At 1 January	**3,661,865**	2,981,865	**366,186**	298,186
Issue of ordinary shares *(note)*	**–**	680,000	**–**	68,000
At 31 December	**3,661,865**	3,661,865	**366,186**	366,186

Note:

On 14 December 2016, the Company entered into a subscription agreement with a subscriber to issue 680,000,000 new ordinary shares of HK$0.1 each at a price of HK$0.18 per share. The subscription was completed on 21 April 2017. These new shares rank pari passu with other shares in all respects.

32. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Details of share options granted in previous years and outstanding during the years ended 31 December 2018 and 2017 under the Scheme are as follows:

Name of grant	Date of grant	Exercisable period	Exercise price HK$ per share	Share closing price immediately before grant date HK$ per share
2015 grant	10 April 2015	10 April 2015 to 9 April 2020	0.465	0.425
2014 grant	30 December 2014	30 December 2014 to 29 December 2019	0.305	0.270

32. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The movement of share options during 2018 is presented as follows:

		Number of share options		
	Name of grant	At 1 January 2018 *'000*	Lapsed during the year *'000*	At 31 December 2018 *'000*
Executive directors				
Mr. Xing Wei *(note b)*	2015 grant	10,000	–	10,000
Independent non- executive directors				
Mr. Li Fang	2014 grant	1,680	–	1,680
	2015 grant	140	–	140
		1,820	–	1,820
Employees	2014 grant	7,000	(5,000)	2,000
	2015 grant	29,200	(28,200)	1,000
Other participants	2014 grant	63,200	–	63,200
	2015 grant	131,300	–	131,300
		230,700	(33,200)	197,500
Total		242,520	(33,200)	209,320

During the year, certain share options have been lapsed due to the resignation of the employees.

32. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The movement of share options during 2017 is presented as follows:

		Number of share options			
	Name of grant	At 1 January 2017 *'000*	Reclassified during the year *'000*	Lapsed during the year *'000*	At 31 December 2017 *'000*
Executive directors					
Mr. Xing Wei *(note b)*	2015 grant	–	10,000	–	10,000
Mr. Zhang Jack Jiyei *(note c)*	2014 grant	16,800	–	(16,800)	–
	2015 grant	3,400	–	(3,400)	–
		20,200	10,000	(20,200)	10,000
Independent non-executive directors					
Mr. Li Fang	2014 grant	1,680	–	–	1,680
	2015 grant	140	–	–	140
		1,820	–	–	1,820
Employees	2014 grant	7,000	–	–	7,000
	2015 grant	34,200	–	(5,000)	29,200
Other participants	2014 grant	80,000	–	(16,800)	63,200
	2015 grant	144,700	(10,000)	(3,400)	131,300
		265,900	(10,000)	(25,200)	230,700
Total		287,920	–	(45,400)	242,520

Notes:

(a) There were no share options granted, exercised or cancelled during the year ended 31 December 2018 and 2017.

(b) Mr. Xing Wei was other participants before his appointment as the director of the Company on 8 May 2017.

(c) Mr. Zhang Jack Jiyei resigned as a director on 16 November 2017.

33. RETIREMENT BENEFITS PLANS

Defined contribution plans

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a specified 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 scheme is to make the specified contributions.

The total expense recognised in profit or loss of HK$17,463,000 (2017: HK$12,101,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

34. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 2 April 2017 and 11 May 2017, the Group entered into sale and purchase agreements with independent third parties for the acquisition of certain assets through the acquisition of the entire equity interest of 海南中置實業有限公司 (Hainan Zhongzhi Company Limited) ("Hainan Zhongzhi") at a cash consideration of RMB50,000,000 (equivalent to approximately HK$56,692,000). Pursuant to the sale and purchase agreement, the Group has agreed a payment schedule with one of the vendors ("Vendor A"), subject to which approximately HK$1,137,000 of the consideration remained payable upon the completion of the acquisition.

As at 31 December 2017, HK$1,137,000 of the consideration remained payable and was included in other payables. A portion of the consideration, amounting to HK$5,243,000 was settled by setting off with a loan receivable balance due from a related party of one of the vendors during the year. Therefore, net cash used in this acquisition was HK$50,312,000.

As at 31 December 2018, the consideration of HK$1,137,000 still remained payable and was included in other payables.

Assets acquired at the date of completion of acquisition are as follows:

	HK$'000
Investment properties	56,692

35. CONTINGENT LIABILITIES

A subsidiary of the Company is a defendant in a legal action in Hong Kong involving the alleged claim of commission income by a consultant in relation to an investment project of the Group in the past. The claim against the subsidiary is approximately US$1,375,000 (equivalent to approximately HK$10,725,000) in aggregate. The directors of the Company believe, based on legal advice, that the case has a good arguable defence and therefore it is not probable that losses will be incurred. As a result, no provision has been made at the end of the reporting period in this regard.

36. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2018 *HK$'000*	2017 *HK$'000*
Within one year	**4,133**	2,829
In the second to fifth year, inclusive	**4,458**	1,082
	8,591	3,911

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff's residential properties. Leases for these properties are negotiated for an average term of one to two years with an early termination option by the Group. None of the leases includes contingent rentals.

The Group as lessor

The Group leases out its warehouse in Suzhou (classified as investment properties) under operating lease. The leases typically run for an initial period from one year to two years. The leases do not include contingent rentals.

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	**911**	940

37. CAPITAL COMMITMENTS

	2018 *HK$'000*	2017 *HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements		
– in respect of the construction of properties	**943**	–
– in respect of the refurbishment of properties	**–**	60,196
	943	60,196

38. 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 debt, which includes the borrowings disclosed in note 29, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, accumulated losses and other reserves.

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

39. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at FVTPL		
Mandatorily measured at FVTPL		
– Held-for-trading	**17,580**	27,579
Financial assets at amortised cost	**161,503**	–
Loans and receivables	**–**	333,267
	179,083	360,846
Financial liabilities		
Amortised cost	**310,054**	371,714

b. Financial risk management objectives and policies

The Group's principal financial instruments include financial assets at FVTPL, trade receivables, deposits and other receivables, amount due from a related company loan receivables, bank balances and cash, pledged bank deposits, trade payables, other payables and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and equity price 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.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong and the PRC, with certain of their sales and purchases transactions being settled in USD, HK$ and RMB. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily USD, HK$ and RMB, against the functional currency of the relevant group entities. The management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As HK$ is pegged to USD, the Group does not have material exchange rate risk on such currency.

The Group's exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. Differences resulting from the translation of the financial statements of the entities within the Group into the Group's presentation currency are excluded.

	2018			2017		
	USD	**HK$**	**RMB**	USD	HK$	RMB
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Bank balances and cash	**1,107**	**591**	**83**	96	251	5
Borrowings	**–**	**(90,422)**	**–**	–	(83,950)	–
Other payables	**–**	**–**	**–**	–	(284)	–
Overall exposure to currency risk	**1,107**	**(89,831)**	**83**	96	(83,983)	5

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the RMB exchange rate for group entities with RMB as functional currency, with all other variables held constant, of the Group's loss for the year and accumulated losses.

	%	Increase (decrease) in loss for the year and accumulated losses HK$'000
2018		
If HK$ weakens against RMB	**5**	**4,496**
If HK$ strengthens against RMB	**(5)**	**(4,496)**
2017		
If HK$ weakens against RMB	5	4,199
If HK$ strengthens against RMB	(5)	(4,199)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' loss for the year and accumulated losses measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group, including intra-group balances with foreign operations within the Group denominated in a currency other than the functional currency of the foreign operations, which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for year ended 31 December 2017.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan receivables and borrowings. The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and pledged bank deposits. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and pledged bank deposits. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

Total interest income from financial assets that are measured at amortised cost is as follows:

	2018	2017
	HK$'000	*HK$'000*
Interest income		
Financial assets at amortised cost	**3,685**	–
Loans and receivables (including bank balances and cash)	**–**	2,936
	3,685	2,936

Interest expense on financial liabilities not measured at FVTPL:

	2018	2017
	HK$'000	*HK$'000*
Financial liabilities at amortised cost	**8,745**	11,808

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2017: 100 basis points) increase or decrease in variable-rate bank balances and pledged bank deposits are 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/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2018 would decrease/increase by HK$752,000 (2017: decrease/increase by HK$1,530,000).

The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the variable financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for year ended 31 December 2017.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Equity price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL (2017: trading securities). For equity securities measured at FVTPL (2017: trading securities) quoted in the Stock Exchange, the management manages this exposure by maintaining a portfolio of investments with different risks. Decisions to buy and sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the index and other industry indicators, as well as the Group's liquidity needs.

The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective equity instruments had been 10% (2017: 10%) higher/lower, the post-tax loss for the year ended 31 December 2018 would decrease/increase by HK$1,758,000 (2017: increase/decrease by HK$2,758,000) as a result of the changes in fair value of financial assets at FVTPL (2017: trading securities).

The sensitivity analysis indicates the instantaneous change in the Group's loss for the year that would arise assuming that the changes in the price of the respective trading securities had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. The analysis is performed on the same basis for year ended 31 December 2017.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

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

The credit risk of our Group mainly arises from trade receivables from toys segment, financial assets at FVTPL, deposits and other receivables, amount due from a related company, bank balances and loan receivables and interest receivables. The carrying amount of these balances represent out Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2017, impairment loss was recognised when there was objective evidence of impairment loss.

Trade receivables from toys segment

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. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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. In this regard, the directors consider that the Group's credit risk is significantly reduced.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer having similar characteristics. The Group defines customers as having similar characteristics if they are related entities. Most of the customers are multi-national corporations with well known brands for their toy products and have satisfactory credit rating.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables from toys segment (Continued)

Concentration risk of trade receivables from toys segment

The Group has concentration of credit risk as 64.5% (2017: 85.3%) and 96.7% (2017: 96.3%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. These customers are international toy retailers with good credit ratings.

Financial assets at FVTPL

Transactions involving financial assets at FVTPL are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

Deposits and other receivables and amount due from a related company

For deposits and other receivables and amount due from a related company, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Bank balances

The credit risks on bank balances are limited because the counterparties are banks with good reputation.

Concentration risk of bank balances

At 31 December 2018, the Group had certain concentration of credit risk as 41.9% (2017: 40.7%) of the total cash and cash equivalents was deposited with one financial institution in Hong Kong with high credit rating. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Loan receivables and interest receivables

At 31 December 2018, the Group had gross loan receivables and interest receivables of HK$23,800,000 (2017: HK$16,159,000) and HK$1,921,000 (2017: HK$593,000) respectively. Before entering into the loan agreements, the Group assesses the credit quality of borrowers and defines the terms of the loans. In addition, the Group reviews the recoverable amount of each individual loan at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has concentration of credit risk as the loans were made to three (2017: two) borrowers. In order to minimise the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue loans. As at 31 December 2017, HK$8,359,000 of the loan receivables have been recovered in full in the current year. In view of the financial position of the borrowers, and the monitoring procedures adopted by the management, in the opinion of the directors of the Company, the credit risk in respect of the loan receivables could be monitored.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- Internal and external credit rating;
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations; and
- Significant changes in the expected performance and behaviour of the borrowing, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Loan receivables and interest receivables (Continued)

At 31 December 2018, included in the gross carrying amount of loan receivables is an amount of HK$7,800,000 (2017: HK$7,800,000) due from a borrower whom the directors of the Company considered was credit-impaired. The directors of the Company assessed the financial position of the borrower as at 31 December 2018 and were of the opinion that the borrower might not be able to repay the loan receivable when it falls due. During the year ended 31 December 2018, the directors of the Company assessed the provision of ECL of this loan receivable was HK$3,290,000 with the assistance of Roma Appraisals Limited, an independent professional valuer not connected to the Group. An impairment loss of HK$3,258,000 and HK$32,000 were recognised in the opening accumulated losses in the initial application of HKFRS 9 at 1 January 2018 and in profit or loss during the year ended 31 December 2018, respectively.

Subsequent to the end of 31 December 2018, the borrower was unable to repay the loans in June 2019 when the loan fell due. The borrower negotiated with the Group for an extension of the repayment term to August and September 2019 by instalments. Up to the date of approval of the consolidated financial statements, the entire amount of the loan receivable of HK$7,800,000 was fully recovered.

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management team to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management team uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's exposure to credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's exposure to credit risk (Continued)

The table below details the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades:

At 31 December 2018	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Net carrying amount *HK$'000*
Loan receivables	19	Performing	12-month ECL	16,000	(2,013)	13,987
		Default	Lifetime ECL	7,800	(3,290)	4,510
Trade receivables	22	Performing	Lifetime ECL (simplified approach)	43,383	(138)	43,245
Amount due from a related company	23	Performing	12-month ECL	228	–	228
Deposits and other receivables	24	Performing	Lifetime ECL	25,588	–	25,588
		Default	Lifetime ECL	43,616	(43,616)	–

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 borrowings and ensures compliance with loan covenants.

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2018, the Group has available unutilised short-term bank loan facilities and revolving loan of approximately HK$35,120,000 (2017: HK$3,006,000) and HK$25,000,000 (31 December 2017: HK$5,000,000) respectively. Details of which are set out in note 29.

The following table details the Group's remaining contractual maturity for its financial liabilities and derivative instruments. 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, loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the lenders choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

39. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average interest rate	On demand or less than 1 month	1 to 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2018						
Borrowings	5.11	45,466	51,198	66,077	162,741	160,422
Trade payables	–	22,743	95,119	–	117,862	117,862
Other payables	–	31,770	–	–	31,770	31,770
		99,979	146,317	66,077	312,373	310,054
2017						
Borrowings	4.94	10,730	72,303	106,194	189,227	184,662
Trade payables	–	20,793	150,582	–	171,375	171,375
Other payables	–	15,677	–	–	15,677	15,677
		47,200	222,885	106,194	376,279	371,714

39. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. Level 1 valuation methodology has been applied to the financial assets at FVTPL of approximately HK$17,580,000 as at 31 December 2018 (2017: HK$27,579,000). In estimating the fair value, the Group uses market-observable data to the extent it is available.

During the years ended 31 December 2018 and 2017, there have been no significant transfers between Level 1 and 2 or transfers into or out of Level 3.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

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

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

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Borrowings	**Interest payables**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(Note 29)		
At 1 January 2017	164,569	–	164,569
Finance costs	–	11,702	11,702
Financing cash flows	14,725	(11,702)	3,023
Foreign exchange translation	5,368	–	5,368
At 31 December 2017	184,662	–	184,662
Finance costs	–	8,745	8,745
Financing cash flows	(19,758)	(8,745)	(28,503)
Foreign exchange translation	(4,482)	–	(4,482)
At 31 December 2018	160,422	–	160,422

41. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2017, part of the consideration for the acquisition of assets through the acquisition of a subsidiary amounting to HK$5,243,000 was settled by setting off with a loan receivable balance, and part of the consideration amounted to HK$1,137,000 remained unsettled at the end of the reporting period. Further details of the acquisitions were set out in note 34.

42. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with a related party:

	2018 HK$'000	2017 HK$'000
Rental income received from a related company in which a key management personnel of the Company has significant influence	**302**	192

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	**8,547**	15,486
Post-employment benefits	**43**	46
	8,590	15,532

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

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name	Place of incorporation/ registration	Registered capital paid up	2018 Percentage of equity attributable to the company		2017 Percentage of equity attributable to the company		Principal activities
			Direct	Indirect	Direct	Indirect	
Alliance Credit Services Limited	Hong Kong	Ordinary HK$10,000	–	100%	–	100%	Provision of credit finance services
Big Crown Investments Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Trading of securities
Billion Pride Group Limited	British Virgin Islands	Ordinary US$1	100%	–	100%	–	Investment holding
Central Information Limited	Hong Kong	Ordinary HK$100	–	100%	–	100%	Trading of securities and provision of management services
Chongxin Co., Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Investment holding
Luxtone HK Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Investment holding
Sewco (B.V.I.) Limited	British Virgin Islands	Ordinary US$401	100%	–	100%	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	–	100%	–	100%	Investment holding and trading of toys products
Talent Management Services Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Provision of management services
中山崇高玩具製品廠有限公司 (Zhongshan Sewco Toys & Novelty Limited*)#	The PRC	Paid-up capital HK$124,300,000	–	100%	–	100%	Manufacturing and sales of toys products
北京琉石網絡技術有限公司#	The PRC	Paid-up capital US$1,750,000	–	100%	–	100%	Investment holding
宜諾科技(蘇州)有限公司# (Yi Nuo)	The PRC	Paid-up capital US$22,349,950	–	100%	–	100%	Lease of properties
海南瀛晟科技產業投資有限公司#	The PRC	Paid-up capital US$200,000	–	100%	–	100%	Investment holding
海南中置實業有限公司#	The PRC	Paid-up capital US$5,800,000	–	100%	–	100%	Investment holding

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

A wholly foreign-owned enterprise registered in the PRC.

* For identification purpose only.

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

44. EVENTS AFTER END OF THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Company has entered into a subscription agreement with China Magnesium Corporation Limited ("CMC"), a company incorporated in Australia and its shares are listed on the Australian Securities Exchange Limited. The Company has conditionally agreed to subscribe for, and CMC has conditionally agreed to allot and issue, 87,000,000 ordinary shares of CMC for the aggregate consideration of Australian Dollar 4,350,000 (equivalent to approximately HK$24,621,000). The subscription agreement lapsed in March 2019. Details are set out in announcement dated 12 December 2018, 31 December 2018 and 28 March 2019.

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Interests in subsidiaries	*(a)*	**148,595**	307,381
Current assets			
Prepayments, deposits and other receivables		**282**	290
Bank balances and cash		**31,930**	63,078
		32,212	63,368
Current liabilities			
Other payables and accruals		**5,199**	3,911
Borrowings		**45,000**	45,000
		50,199	48,911
Net current (liabilities) assets		**(17,987)**	14,457
Total assets less current liabilities		**130,608**	321,838
Net assets		**130,608**	321,838
Capital and reserves			
Share capital	*31*	**366,186**	366,186
Reserves	*(b)*	**(235,578)**	(44,348)
Total equity		**130,608**	321,838

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Notes:

(a) The amounts due from subsidiaries are classified under non-current assets as the directors of the Company consider that the amounts due from subsidiaries are part of the investments in subsidiaries. The amounts are unsecured, interest free and repayable on demand.

(b) Movement in the Company's reserves

	Share premium	Contributed surplus	Share option reserve	Warrant reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	888,000	152,762	66,953	30,264	(1,166,171)	(28,192)
Total comprehensive expense for the year	–	–	–	–	(70,556)	(70,556)
Issue of shares	54,400	–	–	–	–	54,400
Share option lapsed *(note 32)*	–	–	(8,260)	–	8,260	–
Warrants lapsed	–	–	–	(30,264)	30,264	–
At 31 December 2017	942,400	152,762	58,693	–	(1,198,203)	(44,348)
Total comprehensive expense for the year	–	–	–	–	(191,230)	(191,230)
Share options lapsed *(note 32)*	–	–	(7,907)	–	7,907	–
At 31 December 2018	**942,400**	**152,762**	**50,786**	**–**	**(1,381,526)**	**(235,578)**

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements, is set out below:

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					(Restated)
Continuing operations					
Revenue	**636,882**	589,933	236,174	247,732	422,953
Cost of sales	**(567,157)**	(502,364)	(220,750)	(220,459)	(412,261)
Gross profit	**69,745**	87,569	15,424	27,273	10,692
Other income gains and losses	**16,589**	(7,027)	23,871	11,100	7,629
Selling and distribution costs	**(8,183)**	(9,441)	(5,063)	(8,025)	(13,045)
Administrative expenses	**(186,172)**	(101,277)	(75,763)	(123,604)	(87,280)
Research and development expenses	**(1,972)**	(6,389)	(20,690)	–	–
Changes in fair value of trading securities	**(9,999)**	(7,016)	(150,802)	(18,238)	(17,553)
Other operating expenses	**(15,616)**	(12,436)	(4,208)	(12,954)	(11,323)
Finance costs	**(8,745)**	(11,808)	(6,993)	(5,971)	(5,643)
Loss before taxation from continuing operations	**(144,353)**	(67,825)	(224,224)	(130,419)	(116,523)
Income tax expense	**(9,272)**	(9,908)	(3,072)	(2,842)	(1,873)
Loss for the year from continuing operations	**(153,625)**	(77,733)	(227,296)	(133,261)	(118,396)
Discontinued operation					
Loss for the year from discontinued operation	**–**	–	–	–	(3,622)
Loss for the year	**(153,625)**	(77,733)	(227,296)	(133,261)	(122,018)

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Total assets	**524,846**	752,852	512,545	575,714	533,167
Total liabilities	**360,509**	(419,684)	(256,981)	(186,817)	(227,358)
Total equity	**164,337**	333,168	255,564	388,897	305,809