Arts Group

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 1120

2019 ANNUAL REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

NG Hoi Ying, Michael
NG Kim Ying

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

COMPANY SECRETARY

CHOI Pui Yiu

AUDITOR

Deloitte Touche Tohmatsu
(resigned on 29th November, 2019)
RSM Hong Kong
(appointed on 30th December, 2019)

LEGAL ADVISERS

Stephenson Harwood
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

WEBSITE

www.artsgroup.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

Group Structure

At 31st December, 2019

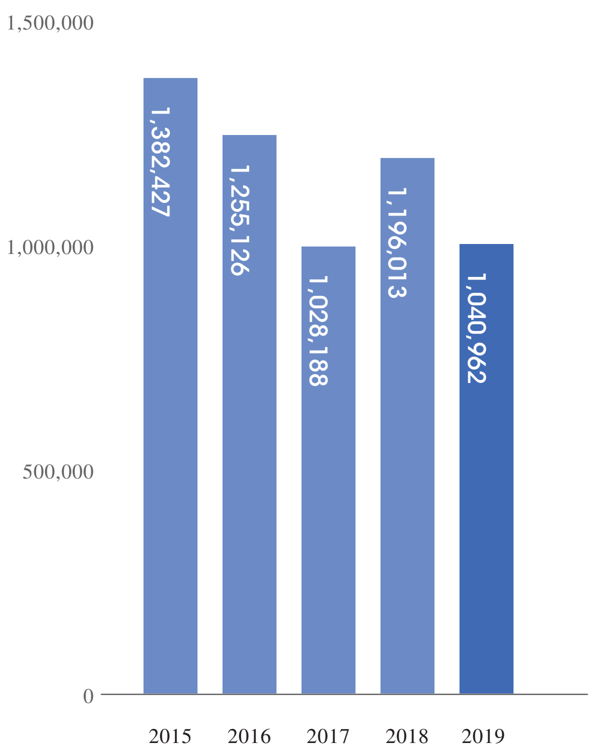
Arts Optical International Holdings Limited

Investment holding

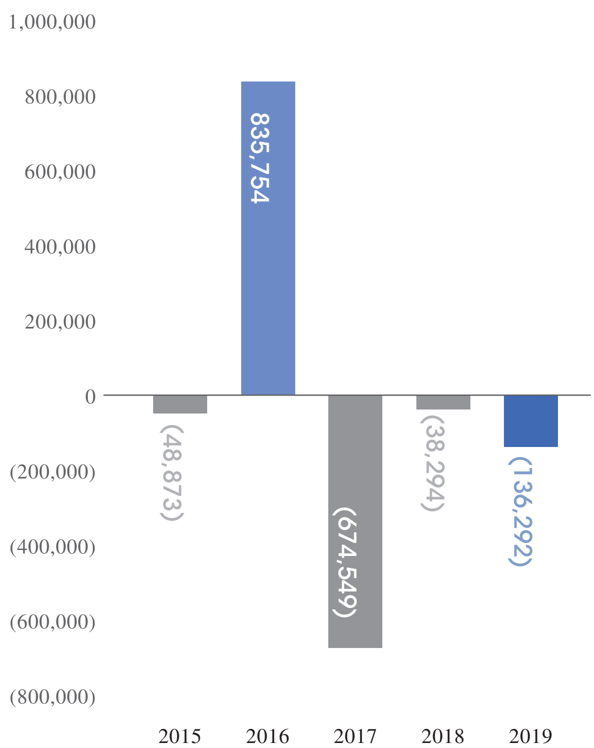
- 100% — **Arts Optical Company Limited**
  Trading in prescription frames and sunglasses to original design manufacturing customers
- 100% — **Argent Optical Technology (Shenzhen) Company Limited**
  Manufacture of prescription frames and sunglasses
- 80% — **Stepper Eyewear Limited**
  Trading in prescription frames and sunglasses under house and licensed brand names
- 100% — **Arts Studio Limited**
  Trading in prescription frames and sunglasses under house and licensed brand names
- 100% — **Sin Dak Industrial Limited**
  Holding of investment properties

Financial Highlights

Consolidated revenue (HK$'000)

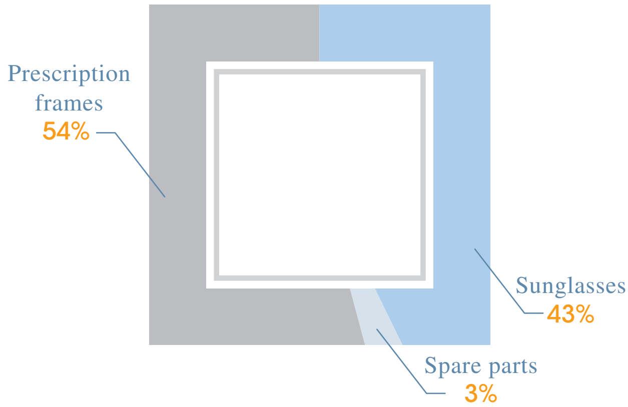


(Loss) profit attributable to owners of the Company (HK$'000)



Consolidated revenue by geographical locations in 2019

Revenue of ODM division by product range in 2019



BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 13% to HK$1,041.0 million in the financial year ended 31st December, 2019 (2018: HK$1,196.0 million). During the year under review, sales of original design manufacturing ("ODM") division in the United States (the "US") market decreased significantly because of the trade dispute and the additional import tariff levied by the US to China. For the financial year ended 31st December, 2019, the Group recorded a loss attributable to owners of the Company and loss per share of HK$136.3 million and 35.28 HK cents respectively (2018: HK$38.3 million and 9.97 HK cents respectively).

Other than decrease in sales for ODM division mentioned above, the loss reported for the year of 2019 was mainly attributed to: (i) the loss of the Group for the year ended 31st December, 2018 was offset by the fair value gain of HK$20.3 million on revaluation of investment properties, whereas the Group recorded a fair value loss on revaluation of investment properties of HK$5.7 million for the year ended 31st December, 2019; (ii) the negative impact on the profitability of the Group as a result of the diseconomies of scale as the Group's consolidated revenue decreased by 13% in 2019 as compared to 2018; and (iii) the significant increase in impairment loss recognised on debtors by HK$5.0 million to HK$9.6 million in 2019 due to uncertainty of their collectability (2018: HK$4.6 million).

Chairman's Statement

ODM division

Our ODM division continued to be the key revenue contributor and revenue generated by this division contributed to 74% of the consolidated revenue of the Group in 2019 (2018: 78%). Sales to ODM customers decreased significantly by 17% from HK$931.9 million in 2018 to HK$775.3 million in 2019. Geographically, sales to customers in Europe, the US, Asia and other regions accounted for 62%, 26%, 10% and 2% respectively of the revenue of the ODM division in 2019 (2018: 53%, 36%, 10% and 1% respectively). Sales to Europe, the US and Asia reduced by 3%, 39% and 19% respectively whereas sales to other regions was up by 42% in 2019. On the product side, the Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses in 2019. Sales of prescription frames, sunglasses and spare parts accounted for 54%, 43% and 3% respectively of revenue of the ODM division in 2019 (2018: 51%, 46% and 3% respectively).

Distribution division

Revenue generated by the distribution division increased slightly by 1% from HK$264.1 million in 2018 to HK$265.6 million in 2019 and accounted for 26% of the consolidated revenue of the Group in 2019 (2018: 22%). The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, China and South Africa, and independent distributors in other countries. Sales to Europe, Asia, the US and other regions accounted for 57%, 19%, 9% and 15% respectively of the revenue of the distribution division in 2019 (2018: 55%, 20%, 9% and 16% respectively). Europe was still the biggest market for the distribution division and sales to Europe were up by 4% compared to the year of 2018. On the other hand, sales to Asia, the US and other regions were decreased by 4%, 2% and 5% respectively. STEPPER, the German brand owned by the Group, continued to be the most popular brand in our distribution division.

STEPPER EYEWEAR

ZEISS

CEO·V EYEWEAR

LAURA ASHLEY

BOXX EYEWEAR

Dakota Smith Los Angeles

RETROCRAFT

PAULO PILIPE

STEPPERS EYEWEAR

MINIBOXX

AustSports

FUSION STEPPER

Financial position and liquidity

Cash flows

The Group recorded a net cash inflow from operating activities of HK$52.0 million (2018: net cash outflow of HK$56.3 million). The result in net cash inflow is mainly due to decrease in inventories and debtors, deposits and prepayments by HK$41.2 million and HK$82.2 million respectively at the end of 2019 and which are in line with the sales decrease in the year of 2019 compared with 2018. The net cash position of the Group (being the bank balances and cash less bank borrowings) increased from HK$191.6 million as at 31st December, 2018 to HK$216.3 million as at 31st December, 2019.

Working capital management

In line with the decline in revenue by 13% in 2019, inventories balances and total amounts of trade debtors and bills receivable balances decreased by 23% and 28% respectively from HK$182.6 million and HK$339.6 million as at 31st December, 2018 to HK$141.4 million and HK$244.9 million as at 31st December, 2019. Inventory turnover period (being the ratio of inventory balances to cost of sales) and debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) shorten correspondingly from 71 days and 104 days in 2018 to 60 days and 86 days respectively in 2019 due to contract of business volume during the year. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained stable at 1.6 to 1.0 as at 31st December, 2019 compared to 1.7 to 1.0 as at 31st December, 2018.

Chairman's Statement

Gearing position

The Group maintained a low gearing position throughout 2019. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained at around 1% as at both 31st December, 2019 and 31st December, 2018. The non-current liabilities of the Group comprised mainly deferred taxation which amounted to HK$9.4 million as at 31st December, 2019 (31st December, 2018: HK$12.0 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 31st December, 2019 and 31st December, 2018 with equity attributable to owners of the Company HK$896.7 million and HK$1,045.4 million as at 31st December, 2019 and 31st December, 2018 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 31st December, 2019 was HK$2.32 (31st December, 2018: HK$2.71).

Contingent liabilities

As at 31st December, 2019, the Group did not have significant contingent liabilities (31st December, 2018: nil).

Foreign currency exposure

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

PROSPECTS

While there is a sign of receding of the trade tensions between the US and China, the coronavirus adds a new layer of uncertainty as it has quickly spread around the world after it was first reported in Wuhan late last year. The Group considers the global business environment will be extremely challenging in the coming future.

To reduce the risk from the continual trade tensions between the US and China, the Group had launched a plan to set up a manufacturing facility in Vietnam in the late 2019 with an aim to reduce reliance solely on China based manufacturing. On the cost side, the Group remains vigilant in improving cost efficiency and productivity.

Going forward, the management will continue to build on our strong financial position and invest in our core businesses, with particular emphasis on production automation, expansion of brand portfolio and our sales network. Notwithstanding the current challenging environment, we see ample opportunities for continuous growth and will capture such opportunities while adhering to our prudent financial discipline.

DIVIDENDS

The Board did not recommend the payment of a final dividend (2018: nil) for the year ended 31st December, 2019.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company to be held on 3rd June, 2020 (the "AGM"), the register of members of the Company will be closed. Details of such closure is set out below:

Latest time to lodge transfer documents for registration	4:30 p.m. on 28th May, 2020
Closure of register of members	29th May, 2020 to 3rd June, 2020 (both dates inclusive)
Record date	3rd June, 2020

During the above closure period, no transfer of shares will be effected. To be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the aforementioned latest time.

Chairman's Statement

ANNUAL GENERAL MEETING

The notice of AGM will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in late-April 2020.

APPRECIATION

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

Ng Hoi Ying, Michael
Chairman

Hong Kong, 27th March, 2020

Biographical Details of Directors and Management

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 65, is an executive director of the Company and the founder as well as the chairman of the Group. Mr. Ng is responsible for the corporate policy making and strategic planning of the Group. He has 52 years of experience in the optical products industry. Mr. Ng won the Young Industrialist Award of Hong Kong organised by the Federation of Hong Kong Industries in 1995. He was admitted as an Honorary Fellow of The Professional Validation Council of Hong Kong Industries in 2004. Mr. Ng was the President of the Hong Kong Optical Manufacturers Association Ltd. (the "HKOMA") during 2002 and 2006 and is currently an executive committee member of the HKOMA and a Life Honorary President of the Hong Kong Wong Tai Sin Industry And Commerce Association Limited. He is the brother of Mr. Ng Kim Ying.

NG Kim Ying, aged 64, is an executive director of the Company. Mr. Ng Kim Ying joined the Group in 1985 and is responsible for the implementation and application of information technology to the business of the Group. He has 35 years of experience in the optical products industry and is the brother of Mr. Ng.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Chi Wai, aged 53, is an independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wong is also an independent non-executive director for Bonjour Holdings Limited, Kin Yat Holdings Limited and C&D International Investment Group Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Wong obtained a Bachelor degree in Social Sciences from and was awarded a Post-graduate Certificate in Laws by the University of Hong Kong in 1988 and 1993 respectively. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. He has 32 years of experience in the accountancy profession. Other than his private practice in accounting, he has been admitted as solicitor at the High Court on 9th March, 2019 and currently a practising solicitor in a law firm as a consultant. Mr. Wong joined the Group in 2004.

CHUNG Hil Lan Eric, aged 54, is an independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Chung obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Chung has 32 years of experience in the accountancy profession and is currently the owner of Eric H. L. Chung & Co., a certified public accountants firm in Hong Kong. He joined the Group in 2004.

LAM Yu Lung, aged 55, is an independent non-executive director, the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Lam is also an independent non-executive director for Telecom Digital Holdings Limited which is listed on the Main Board of the Stock Exchange. Mr. Lam obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Lam has 32 years of experience in the accountancy profession and is currently a partner of Zhonghui Anda CPA Limited, a certified public accountants firm in Hong Kong. He joined the Group in 2011.

SENIOR MANAGEMENT

CHOI Pui Yiu, aged 55, is the chief financial officer and the company secretary of the Group. Mr. Choi joined the Group in 2017 and is responsible for the Group's finance, accounting and company secretarial matters. He obtained a Bachelor degree in Science from the Northeast Missouri State University of the United States of America and a Master degree in Management from the Dongbei University of Finance and Economics of the People's Republic of China in 1988 and 2005 respectively. Mr. Choi is a member of Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He has 31 years of experience in the accountancy profession and has extensive exposure to various manufacturing industries.

LI Chi Hung, aged 59, is the general manager of the Group's production plants in Shenzhen, Heyuan and Zhongshan. Mr. Li joined the Group in 1976 and assisted Mr. Ng in the establishment and expansion of the production plants mentioned above. He is also responsible for the overall management and development of these plants and has 44 years of experience in the optical products industry.

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries, associate and joint venture are the manufacture of, and trading in, prescription frames and sunglasses as well as property holding, which are set out in notes 23, 26 and 27 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis using financial key performance indicators, can be found in the Chairman's Statement set out on pages 5 to 10 of this Annual Report. This discussion forms part of this Directors' Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 38 to 39 of this Annual Report.

The Board did not recommend the payment of a final dividend for the year ended 31st December, 2019.

FIVE-YEAR FINANCIAL SUMMARY

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2019 were as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Contributed surplus	**105,369**	105,369
Retained earnings	**3,944**	4,611
	109,313	109,980

Directors' Report

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Ng Hoi Ying, Michael
Ng Kim Ying

Independent non-executive directors:

Wong Chi Wai
Chung Hil Lan Eric
Lam Yu Lung

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions carried out by the Group during the year are set out in note 47 to the consolidated financial statements. The aforesaid related party transactions did not constitute connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company or their close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the Group's business during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

PERMITTED INDEMNITY PROVISION

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

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

As at 31st December, 2019, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Shares in the Company (Long Positions)

	Number of issued ordinary shares held				Approximate percentage of issued share capital of the Company
Name of director	**Personal interests**	**Family interests**	**Other interests**	**Total**	
Ng Hoi Ying, Michael	2,856,000	7,656,000	153,600,000 *(Note)*	164,112,000	42.49%
Ng Kim Ying	23,126,347	5,000,000	—	28,126,347	7.28%

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

Save as disclosed above, as at 31st December, 2019 none of the directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st December, 2019, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO recorded that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	153,600,000	*(Note a)*	39.77%
Maritime Overseas Assets Limited	Held by controlled corporation	153,600,000	*(Note a)*	39.77%
Ratagan International Company Limited	Beneficial owner	153,600,000	*(Note a)*	39.77%
FMR LLC	Held by controlled corporation	30,870,000	*(Note b)*	7.99%
Fidelity Puritan Trust	Beneficial owner	23,158,400	*(Note c)*	6.00%
David Michael Webb	Beneficial owner	9,745,000	*(Note d)*	2.52%
	Held by controlled corporation	21,125,000	*(Note e)*	5.47%
Preferable Situation Assets Limited	Beneficial owner	21,125,000	*(Note e)*	5.47%

Notes:

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

(b) According to a corporate substantial shareholder notice filed by FMR LLC on 5th November, 2018 (with the date of the relevant event as set out in the corporate substantial shareholder notice being 31st October, 2018), FMR LLC held 30,870,000 shares of the Company indirectly through FMR Co., Inc.. FMR Co., Inc. is wholly-owned by Fidelity Management & Research Company, which is a wholly-owned subsidiary of FMR LLC. Of the above-mentioned 30,870,000 shares of the Company held by FMR Co., Inc., 3,488,000 shares of the Company were held for Fidelity Management Trust Company, which is wholly-owned by FMR LLC, while 3,700,000 shares of the Company were held for Fidelity Investments Canada ULC, which is ultimately owned by certain employees and shareholders of FMR LLC. Those employees and shareholders of FMR LLC own 100% equity interest in Fidelity Canada Investors LLC, which owns 49% equity interest in 483A Bay Street Holdings LP. 483A Bay Street Holdings LP owns 100% equity interest in BlueJay Lux 1 S.a.r.l., which owns 100% equity interest in FIC Holdings ULC, which in turn owns 100% equity interest in Fidelity Investments Canada ULC.

(c) According to a corporate substantial shareholder notice filed by Fidelity Puritan Trust on 28th January, 2019, as at 23rd January, 2019 (i.e. the date of the relevant event as set out in the corporate substantial shareholder notice filed on 28th January, 2019), 23,158,400 shares of the Company were held directly by Fidelity Puritan Trust.

(d) According to an individual substantial shareholder notice filed by Mr. David Michael Webb ("Mr. Webb") on 24th December, 2019, as at 19th December, 2019 (i.e. the date of the relevant event as set out in the individual substantial shareholders notice filed on 24th December, 2019), 9,745,000 shares of the Company were held directly by Mr. Webb.

(e) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. Webb was deemed to be interested in the 21,125,000 shares of the Company held by PSAL under Part XV of the SFO.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO disclosed no other person as having notifiable interests or short positions in the issued share capital of the Company as at 31st December, 2019.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2019, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 42% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 19% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 23% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 5% of the Group's total purchases.

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

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or similar rights as at 31st December, 2019 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

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

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

EMOLUMENT POLICY

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

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

Details of the retirement benefit schemes for all qualifying employees of the Group are set out in note 43 to the consolidated financial statements.

CORPORATE GOVERNANCE

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

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 48 to the consolidated financial statements.

AUDITOR

Deloitte Touche Tohmatsu resigned as the auditor of the Company with effect from 29th November, 2019. RSM Hong Kong ("RSM") was appointed as the auditor to fill the vacancy and its appointment was approved by the shareholders of the Company at the special general meeting held on 30th December, 2019.

The consolidated financial statements of the Group for the year ended 31st December, 2019 were audited by RSM, who will retire at the conclusion of the forthcoming annual general meeting of the Company, and being eligible, offer themselves for re-appointment.

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 27th March, 2020

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices. The Company has complied with all applicable code provisions set out in the CG Code throughout the year ended 31st December, 2019, except for deviation from code provision A.2.1 of the CG Code as disclosed under the paragraph "Chairman and Chief Executive Officer" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31st December, 2019.

BOARD OF DIRECTORS

At 31st December, 2019, the Board comprises five Directors, two of whom are executive Directors, namely Mr. Ng Hoi Ying, Michael and Mr. Ng Kim Ying, and three are independent non-executive Directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.

During the year ended 31st December, 2019, four Board meetings and two General meetings were held. The attendance of each Director is set out as follows:

	Attendance Record	
Directors	**Board meetings**	**General meetings**
Ng Hoi Ying, Michael *(Chairman)*	4/4	2/2
Ng Kim Ying	4/4	2/2
Wong Chi Wai	4/4	2/2
Chung Hil Lan Eric	4/4	0/2
Lam Yu Lung	4/4	2/2

Apart from the above regular Board meetings, the Chairman also held a meeting with independent non-executive Directors only without the presence of other Director during the year.

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

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

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

BOARD OF DIRECTORS (continued)

The Directors participated in the following trainings during the year ended 31st December, 2019:

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Mr. Lam Yu Lung and Mr. Wong Chi Wai were re-elected as Directors in the annual general meeting of the Company held on 25th May, 2017 and 24th May, 2018 respectively for a term of not more than 3 years and are subject to retirement by rotation in accordance with the Bye-laws. In accordance with the above-mentioned Bye-laws, Mr. Lam Yu Lung and Mr. Wong Chi Wai will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Their proposed term of office is not more than 3 years and is subject to retirement by rotation in accordance with the Bye-laws.

BOARD COMMITTEES

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

AUDIT COMMITTEE

An audit committee (the "Audit Committee") has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but are not limited to) review of the interim and annual reports of the Group as well as various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company. The Audit Committee has performed the above duties and made recommendations to the Board on the appointment of the external auditor during the year ended 31st December, 2019. Four Audit Committee meetings were held during the year ended 31st December, 2019 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Wong Chi Wai	4/4
Chung Hil Lan Eric	4/4
Lam Yu Lung	4/4

REMUNERATION COMMITTEE

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

One Remuneration Committee meeting was held during the year ended 31st December, 2019 and the attendance of each committee member is set out as follows:

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

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

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

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

REMUNERATION COMMITTEE (continued)

During the year ended 31st December, 2019, the Remuneration Committee has, among other things, reviewed and determined the remuneration packages of the executive Directors and senior management with reference to their performance and the overall remuneration policy of the Group and approved the terms of executive Directors' service contracts. The remuneration of independent non-executive Directors as recommended by the Board and approved by the shareholders of the Company at the annual general meeting.

Details of the remuneration of the senior management by bands are set out in note 16 to the consolidated financial statements.

As at 31st December, 2019, the Group employed approximately 4,500 (31st December, 2018: 5,300) full time staff in Mainland China, Hong Kong, Europe and South Africa. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

NOMINATION COMMITTEE

A nomination committee (the "Nomination Committee") has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors, and making recommendations to the Board on the appointment or re-appointment of Directors. The Nomination Committee has performed the above duties during the year ended 31st December, 2019.

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

One Nomination Committee meeting was held during the year ended 31st December, 2019 and the attendance of each committee member is set out as follows:

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

NOMINATION POLICY

Nomination Criteria

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

1. character and integrity;

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

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

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

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

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

Nomination Procedures

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

Appointment of New and Replacement Directors

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

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

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

NOMINATION POLICY (continued)

Nomination Procedures (continued)

Re-election of Directors and Nomination from Shareholders

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

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

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

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

DIVIDEND POLICY

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31st December, 2019, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the financial statements, have made judgements and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis.

A statement by the auditor about its reporting responsibilities is included in the Independent Auditor's Report on pages 36 to 37 of this Annual Report.

AUDITOR'S REMUNERATION

During the year under review, the remunerations paid to the Company's auditors, Messrs. Deloitte Touche Tohmatsu and RSM Hong Kong are set out as follows:

Services rendered	**Fees paid/payable** *HK$'000*
Audit service	1,300
Non-audit services:	
Review on 2019 interim results	380
Tax compliance services	132

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The annual review of the effectiveness of the risk management and internal control systems of the Group by the Board during the year ended 31st December, 2019 has considered the following:

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

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

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

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

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

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

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

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

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

- private sessions with external consultants and auditors; and

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

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

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

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

The Board reviews the risk management and internal control systems of the Group annually. With the assistance of an external consultant, Royal Assets Advisory Limited and the Audit Committee, the Board assessed the effectiveness and adequacy of the Group's risk management and internal control systems which covered the process used to identify, evaluate and management significant risks, all material controls, including financial, operational and compliance controls during the year ended 31st December, 2019. No major issue had been raised but certain areas for improvement had been identified and appropriate measures had been taken.

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

INSIDE INFORMATION

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

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

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

COMPANY SECRETARY

Mr. Choi Pui Yiu has been appointed as the Company Secretary since June 2017. There was no non-compliance with requirements of professional qualifications and professional training under the Listing Rules during the year ended 31st December, 2019.

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

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

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

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

Making an Enquiry to the Board

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

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

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

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

Putting Forward Proposals at General Meetings

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

INVESTOR RELATIONS

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the year ended 31st December, 2019. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Shareholders' Communication Policy

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

Independent Auditor's Report

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TO THE SHAREHOLDERS OF
ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 38 to 134, which comprise the consolidated statement of financial position as at 31st December, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

1. Estimated impairment of property, plant and equipment

2. Valuation of investment properties

3. Impairment assessment of trade debtors

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Estimated impairment of property, plant and equipment	
Refer to note 21 to the consolidated financial statements At 31st December, 2019, the Group held HK$458,142,000 (net of accumulated impairment of approximately HK$470,289,000) of property, plant and equipment. We identified the estimated impairment of property, plant and equipment as a key audit matter due to the judgements and estimation that are required in the determining the recoverable amount for impairment assessment of an individual asset or the cash-generation unit to which the asset belongs. When a review of impairment is conducted, the recoverable amount is generally based on value in use calculations which require management assumptions. These assumptions relate to discount rates applied and forecast sales growth and margins which are subject to estimation.	Our procedures included: • Assessing management's process in identifying any impairment indicators for property, plant and equipment; • Challenging and assessing the reasonableness of management's key assumptions including discount rates and forecast sales growth rate and margins adopted in the forecast of future cash flows by management and checking its mathematical accuracy; • Discussing management's key assumptions with the specialist appointed by the Group; and • Assessing the sensitivity analyses performed by management and the extent of the impact on the value in use calculations.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Valuation of investment properties	
Refer to note 20 to the consolidated financial statements As at 31st December, 2019, the investment properties are located in Hong Kong and carried at HK$171,920,000. A decrease in fair value of HK$5,690,000 was recognised in profit or loss for the year ended 31st December, 2019. The Group's investment properties are held at fair value based on the valuations performed by an independent firm of qualified professional valuers (the "Valuers"). Details of the valuation technique and key inputs used in the valuations are disclosed in note 7(c) to the consolidated financial statements. The valuations have been arrived at using an income capitalisation approach. The valuations of investment properties are dependent on certain key inputs, including reversion yield and monthly market rent and contracted monthly rent of similar properties and adjusted based on the Valuers' knowledge of the factors specific to the respective properties.	Our procedures included: • Assessing the estimates adopted by management of the Group and the Valuers by comparing these estimates to entity-specific information and market data to evaluate the reasonableness of these estimates; • Evaluating the Valuers' competence, capabilities and objectivity; • Evaluating the reasonableness of adjustments made by the Valuers by reference to the similar properties relating to location and size of properties; and • Obtaining rental agreements entered into by the Group and comparing the monthly market rent adopted in the valuation to contracted monthly rent in the rental agreements.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
3. Impairment assessment of trade debtors	
Refer to note 30 to the consolidated financial statements As at 31st December, 2019, the Group had gross trade debtors of approximately HK$305,536,000 and allowance for credit losses of approximately HK$61,749,000. In general, the credit terms granted by the Group to customers ranged between 30 days to 120 days. Management performed periodic assessments of the recoverability of trade debtors and the sufficiency of allowance for credit losses based on information including credit profile of different customers, ageing of the trade debtors, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area because the impairment assessment of trade debtors under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures included: • Assessing whether trade debtors had been appropriately grouped by management based on their shared credit risk characteristics; • Testing the accuracy and completeness of the data used by management to develop the historical loss rates and assessing the sufficiency, reliability and relevance of that data; • With the assistance of our internal valuation experts, testing the calculation of the historical loss rate and evaluating the reasonableness of the forward-looking adjustments made to reflect current and forecast future economic conditions; • Testing the accuracy of the aging of trade debtors on a sample basis to supporting documents; and • Testing the calculation of expected credit loss provisions applying the provision rates to the age categories of the trade debtors outstanding at the reporting date.

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

The directors are responsible for the other information. The other information comprises all the information in the Company's 2019 annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tam Shing Yu.

RSM Hong Kong
Certified Public Accountants
Hong Kong

27th March, 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	8	**1,040,962**	1,196,013
Cost of sales		**(861,625)**	(937,947)
Gross profit		**179,337**	258,066
Other income	9	**16,909**	29,265
Other gains and losses	10	**(5,444)**	38,053
Impairment losses	12	**(9,640)**	(4,563)
Distribution and selling expenses		**(32,302)**	(37,095)
Administrative expenses		**(281,214)**	(311,301)
Other expenses		**(1,743)**	(2,245)
Loss from operations		**(134,097)**	(29,820)
Finance costs	13	**(886)**	(1,133)
Share of profit of an associate		**5,700**	5,922
Loss before tax		**(129,283)**	(25,031)
Income tax expense	14	**(2,470)**	(9,555)
Loss for the year	15	**(131,753)**	(34,586)
Other comprehensive (expense)/income after tax:			
Item that will not be reclassified to profit or loss:			
Revaluation increase upon transfer from property, plant and equipment to investment properties		**—**	1,916
		—	1,916
Items that may be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(10,914)**	(47,623)
Exchange differences arising on translation of an associate		**(1,388)**	(1,752)
		(12,302)	(49,375)
Other comprehensive expense for the year, net of tax		**(12,302)**	(47,459)
Total comprehensive expense for the year		**(144,055)**	(82,045)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2019

	Note	2019 HK$'000	2018 HK$'000
(Loss)/profit for the year attributable to:			
Owners of the Company		**(136,292)**	(38,294)
Non-controlling interests		**4,539**	3,708
		(131,753)	(34,586)
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(148,757)**	(85,006)
Non-controlling interests		**4,702**	2,961
		(144,055)	(82,045)
		HK cents	*HK cents*
Loss per share			
Basic and diluted	19	**(35.28)**	(9.97)

Consolidated Statement of Financial Position

At 31st December, 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Investment properties	20	171,920	177,610
Property, plant and equipment	21	458,142	522,698
Prepaid land lease payments	22	—	29,386
Deposits paid for acquisition of property, plant and equipment		4,931	1,315
Intangible assets	24	8,149	9,396
Goodwill	25	7,987	7,760
Investment in an associate	26	38,160	32,306
Investment in a joint venture	27	—	—
Loan receivable	28	—	—
Derivative financial instrument	38	288	—
Deferred tax assets	39	3,297	391
		692,874	780,862
Current assets			
Inventories	29	141,363	182,563
Debtors, deposits and prepayments	30	273,150	355,359
Loan receivable	28	—	—
Other receivables	31	—	881
Prepaid land lease payments	22	—	802
Bank balances and cash	32	241,640	222,277
		656,153	761,882
Current liabilities			
Creditors and accrued charges	33	348,097	399,115
Contract liabilities	34	12,253	13,363
Refund liabilities	35	3,287	4,865
Lease liabilities	36	688	—
Bank borrowings	37	25,304	30,641
Derivative financial instrument	38	7,246	—
Tax liabilities		11,428	9,456
		408,303	457,440
Net current assets		247,850	304,442
Total assets less current liabilities		940,724	1,085,304

Consolidated Statement of Financial Position

At 31st December, 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Consideration payable	26	**1,388**	—
Lease liabilities	36	**1,377**	—
Deferred tax liabilities	39	**9,365**	12,022
		12,130	12,022
NET ASSETS		**928,594**	1,073,282
Capital and reserves			
Share capital	40	**38,626**	38,626
Reserves	42	**858,032**	1,006,789
Equity attributable to owners of the Company		**896,658**	1,045,415
Non-controlling interests		**31,936**	27,867
TOTAL EQUITY		**928,594**	1,073,282

Approved by the Board of Directors on 27th March, 2020 and are signed on its behalf by:

Ng Hoi Ying, Michael
Director

Ng Kim Ying
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2019

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 note 42(b)(i)	Other reserve HK$'000 note 42(b)(ii)	Exchange reserve HK$'000 note 42(b)(iii)	Property revaluation reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1st January, 2018	38,365	113,950	(3,269)	5,318	97,682	37,261	855,280	1,144,587	22,232	1,166,819
Total comprehensive (expense)/income for the year	—	—	—	—	(48,628)	1,916	(38,294)	(85,006)	2,961	(82,045)
Dividends paid *(note 18)*	—	—	—	—	—	—	(19,183)	(19,183)	—	(19,183)
Dividends paid to non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	(571)	(571)
Issue of shares *(note 40)*	261	4,756	—	—	—	—	—	5,017	—	5,017
Contribution from non-controlling shareholder in respect of incorporation of a subsidiary	—	—	—	—	—	—	—	—	3,245	3,245
Changes in equity for the year	261	4,756	—	—	(48,628)	1,916	(57,477)	(99,172)	5,635	(93,537)
At 31st December, 2018 and 1st January, 2019	38,626	118,706	(3,269)	5,318	49,054	39,177	797,803	1,045,415	27,867	1,073,282
Total comprehensive (expense)/income for the year	—	—	—	—	(12,465)	—	(136,292)	(148,757)	4,702	(144,055)
Dividends paid to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	(807)	(807)
Contribution from non-controlling shareholders in respect of incorporation of a subsidiary	—	—	—	—	—	—	—	—	174	174
Changes in equity for the year	—	—	—	—	(12,465)	—	(136,292)	(148,757)	4,069	(144,688)
At 31st December, 2019	38,626	118,706	(3,269)	5,318	36,589	39,177	661,511	896,658	31,936	928,594

Consolidated Statement of Cash Flows

For the year ended 31st December, 2019

	2019 *HK$'000*	2018 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(129,283)**	(25,031)
Adjustments for:		
Finance costs	**886**	1,133
Release of prepaid land lease payments	**—**	835
Depreciation of property, plant and equipment	**98,383**	98,707
Amortisation of intangible assets	**2,110**	2,005
(Write back of)/allowance for inventories	**(10,165)**	6,465
Impairment losses recognised on debtors	**9,640**	4,563
Interest income on bank deposits	**(840)**	(5,431)
Net loss/(gain) on disposal of property, plant and equipment	**2,231**	(770)
Decrease/(increase) in fair values of investments properties	**5,690**	(20,250)
Imputed interest income on other receivables	**(71)**	(137)
Share of profit of an associate	**(5,700)**	(5,922)
Net decrease in fair values of derivative financial instruments	**6,958**	—
Operating (loss)/profit before working capital changes	**(20,161)**	56,167
Decrease/(increase) in inventories	**54,462**	(39,799)
Decrease/(increase) in debtors, deposits and prepayments	**68,800**	(77,025)
(Decrease)/increase in creditors and accrued charges	**(43,476)**	6,526
(Decrease)/increase in contract liabilities	**(1,110)**	5,069
(Decrease)/increase in refund liabilities	**(1,578)**	562
Cash generated from/(used in) operations	**56,937**	(48,500)
Income taxes paid	**(4,921)**	(7,791)
Net cash generated from/(used in) operating activities	**52,016**	(56,291)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(15,896)**	(29,921)
Proceeds from disposal of property, plant and equipment	**857**	893
Interest received	**840**	5,431
Release of structured deposits	**—**	114,911
Dividend received from an associate	**3,449**	4,525
Investment in an associate	**(5,553)**	—
Deposits paid for acquisition of property, plant and equipment	**(4,200)**	(647)
Net cash (used in)/generated from investing activities	**(20,503)**	95,192

Consolidated Statement of Cash Flows

For the year ended 31st December, 2019

	2019 *HK$'000*	2018 *HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from disposal of partial interests in subsidiaries without losing control	**947**	953
Contribution from non-controlling shareholders in respect of incorporation of a subsidiary	**174**	3,245
Cash dividends paid to owners of the Company	**—**	(14,166)
Cash dividends paid to non-controlling shareholders of subsidiaries	**(807)**	(571)
Interest paid on bank borrowings	**(841)**	(1,133)
Interest paid on lease liabilities	**(45)**	—
Repayments of bank borrowings	**(5,337)**	(26,046)
Repayments of lease liabilities	**(958)**	—
Net cash used in financing activities	**(6,867)**	(37,718)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**24,646**	1,183
Effect of foreign exchange rate changes	**(5,283)**	(12,352)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**222,277**	233,446
CASH AND CASH EQUIVALENTS AT END OF YEAR	**241,640**	222,277

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of the its principal subsidiaries are set out in note 23.

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16 *Leases* ("HKFRS 16"), and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) Application of new and revised HKFRSs (continued)

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 *Leases* ("HKAS 17"), and the related interpretations, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1st January, 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1st January, 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1st January, 2019. For contracts entered into before 1st January, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) Application of new and revised HKFRSs (continued)

HKFRS 16 Leases (continued)

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The average incremental borrowing rates applied by the relevant group entities range from 1.75% to 10.25%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31st December, 2019;

(ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in a similar economic environment. Specifically, discount rate for certain leases of leasehold lands and properties was determined on a portfolio basis;

(iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;

(iv) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

(v) relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative to an impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) Application of new and revised HKFRSs (continued)

HKFRS 16 Leases (continued)

(b) Lessee accounting and transitional impact (continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* ("HKAS 12") requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

The following table reconciles the operating lease commitments as disclosed in note 46 as at 31st December, 2018 to the opening balance for lease liabilities recognised as at 1st January, 2019:

	HK$'000
Operating lease commitments disclosed as at 31st December, 2018	4,597
Less: commitments relating to lease exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31st December, 2019	(1,349)
	3,248
Less: total future interest expenses	(223)
Present value of remaining lease payments, discounted using the incremental borrowing rate and lease liabilities as at 1st January, 2019	3,025
Of which are:	
Current lease liabilities	958
Non-current lease liabilities	2,067
	3,025

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31st December, 2018.

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) Application of new and revised HKFRSs (continued)

HKFRS 16 Leases (continued)

(b) Lessee accounting and transitional impact (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	Notes	Carrying amount as at 31st December, 2018 HK$'000	Reclassification HK$'000	Recognition of leases HK$'000	Carrying amount as at 1st January, 2019 HK$'000
		Effects of adoption of HKFRS 16			
Assets					
Property, plant and equipment		522,698	30,321	3,025	556,044
Debtors, deposits and prepayments	(i)	355,359	(133)	—	355,226
Prepaid land lease payments	(ii)	30,188	(30,188)	—	—
Liabilities					
Lease liabilities		—	—	(3,025)	(3,025)

Notes:

(i) Prepaid rent for office premises was classified as prepayment as at 31st December, 2018. Upon application of HKFRS 16, the prepaid rent was reclassified as right-of-use assets included in property, plant and equipment.

(ii) Upfront payments for leasehold lands in the People's Republic of China (excluding Hong Kong) (the "PRC") own used properties were classified as prepaid land lease payments as at 31st December, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid land lease payments amounting to HK$802,000 and HK$29,386,000 respectively were reclassified to right-of-use assets included in property, plant and equipment.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) Application of new and revised HKFRSs (continued)

HKFRS 16 Leases (continued)

(c) Impact of the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1st January, 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported loss from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element (note 44(a)). These elements are classified as financing cash outflows. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows (note 44(b)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial results and cash flows for the year ended 31st December, 2019, by adjusting the amounts reported under HKFRS 16 in the consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
Financial results for the year ended 31st December, 2019 impacted by the adoption of HKFRS 16:	**Amounts reported under HKFRS 16**	**Add back: HKFRS 16 depreciation and interest expense**	**Deduct: Estimated amounts related to operating leases as if under HKAS 17** *(Note 1)*	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss from operations	**(134,097)**	**1,897**	**(1,928)**	**(134,128)**	(29,820)
Finance costs	**(886)**	**45**	**—**	**(841)**	(1,133)
Loss before tax	**(129,283)**	**1,942**	**(1,928)**	**(129,269)**	(25,031)
Loss for the year	**(131,753)**	**1,942**	**(1,928)**	**(131,739)**	(34,586)

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) Application of new and revised HKFRSs (continued)

HKFRS 16 Leases (continued)

(c) Impact of the financial results and cash flows of the Group (continued)

	2019			2018
Line items in the consolidated statement of cash flows for the year ended 31st December, 2019 impacted by the adoption of HKFRS 16:	**Amounts reported under HKFRS 16** *HK$'000*	**Estimated amounts related to operating leases as if under HKAS 17** *(Notes 1&2)* *HK$'000*	**Hypothetical amounts for 2019 as if under HKAS 17** *HK$'000*	Compared to amounts reported for 2018 under HKAS 17 *HK$'000*
Cash generated from/(used in) operations	**56,937**	**(1,003)**	**55,934**	(48,500)
Net cash generated from/(used in) operating activities	**52,016**	**(1,003)**	**51,013**	(56,291)
Interest paid on lease liabilities	**(45)**	**45**	**—**	—
Repayments of lease liabilities	**(958)**	**958**	**—**	—
Net cash used in financing activities	**(6,867)**	**1,003**	**(5,864)**	(37,718)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that related to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there was no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

(d) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation. The adoption of HKFRS 16 does not have a significant impact on the Group's consolidated financial statements as the Group previously elected to apply HKAS 40 *Investment Properties* to account for all of its leasehold properties that were held for investment purposes as at 31st December, 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1st January, 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 *Definition of a Business*	1st January, 2020
Amendments to HKAS 1 and HKAS 8 *Definition of Material*	1st January, 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 *Interest Rate Benchmark Reform*	1st January, 2020

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. investment properties and certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any related accumulated exchange reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests ("NCI") represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. NCI are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. NCI are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to owners of the Company and to the non-controlling shareholders even if this results in the NCI having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and NCI are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held ownership interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The NCI in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In accessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Associates (continued)

Investments in associates are accounted for in the consolidated financial statements by the equity method and are initially recognised at cost. Identifiable assets and liabilities of the associates in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of investments over the Group's share of the net fair value of the associates' identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investments and is tested for impairment together with the investments at the end of each reporting period when there is objective evidence that the investments are impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of associates' post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated exchange reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Joint arrangements (continued)

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group has assessed the type of its joint arrangement and determined it to be joint venture.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and are initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of investment over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of the joint venture's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's entire carrying amount of that joint venture (including goodwill) and any related accumulated exchange reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

- all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities and of borrowings are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment

Property, plant and equipment, including buildings and leasehold land in Hong Kong and right-of-use assets (upon application of HKFRS 16 at 1st January, 2019, the interest in leasehold lands in the PRC was reclassified to "Right-of-use assets", see note 3), held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An owned investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 4(u).

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease, and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases.

(h) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) The Group as lessee

Policy applicable from 1st January, 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases (continued)

(i) The Group as lessee (continued)

Policy applicable from 1st January, 2019 (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses except for the right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 4(g).

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment properties and lease liabilities separately in the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases (continued)

(i) The Group as lessee (continued)

Policy prior to 1st January, 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

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

(ii) The Group as lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

(i) Intangible assets other than goodwill

Intangible assets which represent trademark and customer relations are stated at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss as follows:

Trademark	Indefinite
Customer relationships	Straight-line basis over 10 years

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

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 4(aa) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(l) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) 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 FVTPL are recognised immediately in profit or loss.

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.

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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial assets

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. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt instruments

Debt instruments held by the Group are classified into the following measurement category:

– amortised cost, if the instruments are held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(o) Cash and cash equivalents

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

(p) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Trade and other payables

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

(s) Equity instruments

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

(t) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

(u) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sale of optical products is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue and other income (continued)

Under the Group's standard contract terms, customers have a right of return within 14 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or fair value through other comprehensive income ("FVTOCI") (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(v) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave, maternity leave and paternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Effective 1st January, 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

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

(x) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

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

(y) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items 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 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 and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements, 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.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or that are not yet available for use are reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

The carrying amounts of other non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss and other comprehensive income to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

Value in use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(aa) Impairment of financial assets and contract assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost, lease receivables, trade debtors and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade debtors, contract assets and lease receivables. The ECL on these financial assets are estimated using a provision matrix 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 as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL ("12m ECL").

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Impairment of financial assets and contract assets (continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

- 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 for a particular financial instrument;
- 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;
- significant increases in credit risk on other financial instruments of the same debtor; and
- 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 on a financial asset 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)

(aa) Impairment of financial assets and contract assets (continued)

Significant increase in credit risk (continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default;

(ii) The debtor 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 financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

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.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- 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 analysis, 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)

(aa) Impairment of financial assets and contract assets (continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

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

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 as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1st January, 2019) or HKAS 17 (prior to 1st January, 2019).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Impairment of financial assets and contract assets (continued)

Measurement and recognition of ECL (continued)

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(bb) Provisions and contingent liabilities

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

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

(cc) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the Directors 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, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the Directors have adopted the presumption that investment properties measured using the fair value model are recovered through sale.

(b) Revenue recognition from sales of products with no alternative use at point in time

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

Key sources of estimation uncertainty

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

(a) Income taxes

As at 31st December, 2019, no deferred tax asset has been recognised on the tax losses of HK$554,147,000 (2018: HK$554,978,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(b) Impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment as at 31st December, 2019 were HK$458,142,000 (2018: HK$522,698,000 and prepaid land lease payment of HK$30,188,000).

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was HK$7,987,000 (2018: HK$7,760,000). Details of the goodwill are provided in note 25 to the consolidated financial statements.

(d) Impairment of intangible assets

Determining whether intangible assets (i.e. trademark and customer relationships) are impaired requires an estimation of the recoverable amount of these intangible assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. At 31st December, 2019, the carrying amount of the Group's intangible assets was HK$8,149,000 (2018: HK$9,396,000). Details of the intangible assets are provided in note 24 to the consolidated financial statements.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(e) Fair value of investment properties

The Group appointed an independent firm of qualified professional valuers to assess the fair value of the investment properties. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The Directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

The carrying amount of investment properties as at 31st December, 2019 was HK$171,920,000 (2018: HK$177,610,000).

(f) Impairment of trade debtors

The management of the Group estimates the amount of impairment loss for ECL on trade debtors based on the credit risk of trade debtors. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31st December, 2019, the carrying amount of trade debtors is HK$243,787,000 (net of allowance for credit losses of HK$61,749,000) (2018: HK$339,056,000 (net of allowance for credit losses of HK$55,394,000)).

(g) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write back in the period in which such estimate has been changed. As at 31st December, 2019, the carrying amount of inventories was HK$141,363,000, net of allowance for inventories of HK$65,058,000 (2018: HK$182,563,000, net of allowance for inventories of HK$75,219,000).

(h) Fair value of derivative financial instruments

The Group appointed an independent firm of qualified professional valuers to assess the fair value of the derivative financial instruments of put and call options in respect of 12.5% of the issued share capital of the Group's associate. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates. The Directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

The carrying amounts of derivative financial instruments for put and call options as at 31st December, 2019 were HK$288,000 and HK$7,246,000 respectively.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HK$, Renminbi ("RMB"), Euro ("EUR"), US$, Japanese Yen ("JPY") and British Pound Sterling ("GBP"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currencies other than the functional currencies of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**39,240**	19,203	**24,430**	64,745
RMB	**1,008**	11,402	**5,462**	19,060
EUR	**9,028**	3,184	**12,317**	3,850
US$	**56,983**	54,522	**653**	924
JPY	**1,673**	163	**776**	765
GBP	**6,153**	6,288	**—**	—

Sensitivity analysis

The Group is mainly exposed to exchange rate fluctuation in currency of RMB, EUR, JPY and GBP. HK$ and US$ denominated monetary items arose from group entities with functional currency of US$ and HK$ respectively. As HK$ is pegged to US$, the Directors consider that the foreign currency exposure is limited.

At 31st December, 2019, if HK$ had strengthened or weakened 5% against RMB with all other variables held constant, consolidated loss before tax for the year and the equity would have been HK$223,000 (2018: HK$383,000) lower or higher, arising mainly as a result of the foreign exchange gain or loss on trade creditors denominated in RMB.

At 31st December, 2019, if HK$ had strengthened or weakened 5% against EUR with all other variables held constant, consolidated loss before tax for the year and the equity would have been HK$164,000 (2018: HK$33,000) lower or higher, arising mainly as a result of the foreign exchange gain or loss on derivative financial instrument (2018: gain or loss on trade creditors) denominated in EUR.

6. FINANCIAL RISK MANAGEMENT (continued)

(a) Foreign currency risk (continued)

Sensitivity analysis (continued)

At 31st December, 2019, if HK$ had strengthened or weakened 5% against JPY with all other variables held constant, consolidated loss before tax for the year and the equity would have been HK$45,000 higher or lower (2018: HK$30,000 lower or higher), arising mainly as a result of the foreign exchange loss or gain on trade debtors (2018: gain or loss on trade creditors) denominated in JPY.

At 31st December, 2019, if HK$ had strengthened or weakened 5% against GBP with all other variables held constant, consolidated loss before tax for the year and the equity would have been HK$308,000 (2018: HK$314,000) higher or lower, arising mainly as a result of the foreign exchange loss or gain on bank balances denominated in GBP.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade debtors) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

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

At 31st December, 2019, the Group's concentration of credit risk by geographical locations is mainly in Italy, which accounted for 59% (2018: 53%) of the total trade debtors.

At 31st December, 2019, the Group has concentration of credit risk as 24% (2018: 22%) and 47% (2018: 45%) of the total trade debtors was due from the Group's largest customer and the five largest customers.

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

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

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

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

	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
				2019	2018
				HK$'000	*HK$'000*
Loan receivable	28	Loss	Credit-impaired	**13,689**	13,765
Other receivables	31	*Note 1*	12m ECL	**—**	881
Other debtors and bills receivables	30	*Note 1*	12m ECL	**19,704**	2,594
Trade debtors	30	*Note 2*	Lifetime ECL (significant outstanding balance)	**148,859**	203,391
		Note 2	Lifetime ECL (provision matrix)	**98,164**	148,137
		Loss	Credit-impaired	**58,513**	42,922
				305,536	394,450

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Notes:

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

	Past due	Not past due/no fixed repayment terms	Total
	HK$'000	*HK$'000*	*HK$'000*
2019			
Other debtors and bills receivables	**—**	**19,704**	**19,704**
2018			
Other debtors and bills receivables	—	2,594	2,594
Other receivables	—	811	811

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

Provision matrix – internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade debtors which are assessed based on provision matrix as at 31st December, 2019 within lifetime ECL (not credit-impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of HK$148,859,000 (2018: HK$203,391,000) and HK$58,513,000 (2018: HK$42,922,000) respectively as at 31st December, 2019 were assessed individually.

Gross carrying amount

Internal credit rating	2019 *HK$'000*	2018 *HK$'000*
Low risk	**32,439**	32,483
Watch list	**46,477**	107,644
Doubtful	**19,248**	8,010
At 31st December	**98,164**	148,137

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

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Provision matrix – internal credit rating (continued)

Gross carrying amount (continued)

During the year ended 31st December, 2019, reversal of impairment allowance of HK$837,000 (2018: impairment allowance of HK$218,000) and HK$308,000 (2018: impairment allowance of HK$3,638,000) for trade debtors, based on the provision matrix and significant outstanding balances were made respectively. Impairment allowance of HK$10,785,000 (2018: HK$707,000) were made on debtors with credit-impaired debtors.

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

	Lifetime ECL (not credit-impaired) *HK$'000*	Lifetime ECL (credit-impaired) *HK$'000*	Total *HK$'000*
At 1st January, 2018	8,964	42,038	51,002
Changes due to financial instruments recognised			
– Transfer to credit-impaired	(177)	177	—
– Impairment losses recognised	3,856	707	4,563
– Write-offs	(160)	—	(160)
Exchange realignment	(11)	—	(11)
At 31st December, 2018 and 1st January, 2019	12,472	42,922	55,394
Changes due to financial instruments recognised			
– Transfer to credit-impaired	(7,936)	7,936	—
– (Reversal of impairment losses)/ impairment losses recognised	(1,145)	10,785	9,640
– Write-offs	(155)	(3,130)	(3,285)
At 31st December, 2019	3,236	58,513	61,749

6. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

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

	Increase/(decrease) in lifetime ECL	
	Not credit-impaired	**Credit-impaired**
	HK$'000	*HK$'000*
2019		
Three trade debtors with a gross amount of HK$18,720,000 defaulted and transferred to credit-impaired as at 31st December, 2019	**(7,936)**	**7,936**
2018		
Four trade debtors with a gross amount of HK$884,000 defaulted and transferred to credit-impaired as at 31st December, 2018	(177)	177

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

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

As at 31st December, 2019, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$3,000,000 (2018: HK$3,000,000) and HK$68,780,000 (2018: HK$92,980,000) respectively. The facilities expiring within one year are annual facilities subject to review at various dates during 2020.

All of the banking facilities are subject to the fulfillment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

6. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the banks will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. As at 31st December, 2019, none (2018: none) of the covenants relating to drawn down facilities had been breached.

The maturity analysis based on the contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Weighted average effective interest rate %	On demand or less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	2 years to 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
At 31st December, 2019						
Creditors and accrued charges	**—**	**142,037**	**1,574**	**—**	**143,611**	**143,611**
Lease liabilities	**2.46**	**286**	**432**	**1,408**	**2,126**	**2,065**
Bank borrowings – variable rate	**3.11**	**25,304**	**—**	**—**	**25,304**	**25,304**
At 31st December, 2018						
Creditors and accrued charges	—	183,152	2,878	—	186,030	186,030
Bank borrowings – variable rate	3.09	30,641	—	—	30,641	30,641

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 3 months" time band in the above maturity analysis. As at 31st December, 2019 and 2018, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$25,304,000 and HK$30,641,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

The Directors believe that these outstanding bank borrowings at 31st December, 2019 will be fully repaid by June 2024 in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	0 – 3 months *HK$'000*	4 – 12 months *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Over 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*
2019	**1,549**	**4,647**	**6,195**	**14,715**	**—**	**27,106**
2018	1,549	4,647	6,196	18,587	2,321	33,300

6. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk

The Group's cash flow interest rate risk primarily relates to bank balances and borrowings. It is the Group's policy to keep its borrowing at floating rate of interest so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate and Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's borrowings.

At 31st December, 2019, if interest rates had been 50 basis points (2018: 50 basis points) lower/higher with all other variables held constant, consolidated loss before tax for the year would have been HK$127,000 (2018: HK$153,000) lower/higher, arising mainly as a result of lower/higher interest expense on bank borrowings.

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

(e) Categories of financial instruments at 31st December

	2019 ***HK$'000***	2018 *HK$'000*
Financial assets:		
Derivative financial instrument	**288**	—
Financial assets measured at amortised cost	**505,130**	564,809
Financial liabilities:		
Derivative financial instrument	**7,246**	—
Financial liabilities measured at amortised cost	**168,915**	216,671

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31st December:

Description	**Fair value measurements using: Level 3 2019** *HK$'000*
Recurring fair value measurements:	
Financial assets	
Derivative – Put option	**288**
Investment properties	
Commercial units – Hong Kong	**171,920**
Total	**172,208**
Financial liabilities	
Derivative – Call option	**(7,246)**

Description	Fair value measurements using: Level 3 2018 *HK$'000*
Recurring fair value measurements:	
Investment properties	
Commercial units – Hong Kong	177,610

7. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of financial instruments measured at fair value based on level 3:

Assets

Description	Derivative put option *HK$'000*	Investment properties *HK$'000*	2019 Total *HK$'000*
At 1st January, 2019	—	177,610	177,610
Total gains or losses recognised in profit or loss *(#)*	(1,526)	(5,690)	(7,216)
Initial recognition *(#)*	1,814	—	1,814
At 31st December, 2019	288	171,920	172,208
(#) Include gains or losses for assets held at end of reporting period	288	(5,690)	(5,402)

Description	2018 Investment properties *HK$'000*
At 1st January, 2018	154,190
Total gains or losses recognised in profit or loss *(#)*	20,250
Reclassification from property, plant and equipment	3,170
At 31st December, 2018	177,610
(#) Include gains or losses for assets held at end of reporting period	20,250

Liabilities

Description	2019 Derivative call option *HK$'000*
At 1st January, 2019	—
Initial recognition *(#)*	(3,000)
Total gains or losses recognised in profit or loss *(#)*	(4,246)
At 31st December, 2019	(7,246)
(#) Include gains or losses for liabilities held at end of reporting period	(7,246)

The total gains or losses recognised in profit or loss including those of assets/(liabilities) held at end or reporting period are presented in other gains and losses in the consolidated statement of profit or loss and other comprehensive income for both years.

7. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31st December, 2019:

The Group's chief financial officer (the "CFO") is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The CFO reports directly to the board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the CFO and the board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly:

– reversion yield (estimated based on the capitalisation of rental income potential, nature of the property and prevailing market condition);

– monthly market rent (estimated based on time, location and individual factors such as frontage and size, between the comparable and the property);

– volatility of share price (estimated based on the historical share price movement of companies in similar business operation); and

– dividend yield (estimated based on historical dividend payment).

Level 3 fair value measurements

Description	Valuation techniques	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value — Assets/(Liabilities) 2019 *HK$'000*	2018 *HK$'000*
Investment properties	Income capitalisation approach	Reversion yield	2.6% to 3.0% (2018: 2.7% to 3.0%)	Decrease	171,920	177,610
		Monthly market rent	Office portion: HK$26.0 to HK$29.75 (2018: HK$25.32 to HK$28.0) per square foot per month on lettable area basis Car parking space portion: HK$3,400 (2018: HK$3,000 to HK$3,400) per car parking space per month	Increase		
Put option	Binomial option pricing model	Volatility of share price	20.2%	Increase	288	—
		Dividend yield	4%	Increase		
Call option	Binomial option pricing model	Volatility of share price	19.8%	Increase	(7,246)	—
		Dividend yield	4%	Decrease		

During the two years, there were no changes in the valuation techniques used.

8. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines for the year is as follows:

	2019 *HK$'000*	2018 *HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Original design manufacturing division	775,342	931,916
– Distribution division	265,620	264,097
	1,040,962	1,196,013

The Group derives all revenue from the transfer of goods and services at a point in time.

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

9. OTHER INCOME

	2019 *HK$'000*	2018 *HK$'000*
Compensation from customers	4,922	4,259
Government subsidy *(Note)*	190	901
Gross rental income from investment properties	4,382	4,302
Imputed interest income on other receivables	71	137
Interest income on bank deposits	840	5,431
Sales of scrap materials	3,102	4,716
Others	3,402	9,519
	16,909	29,265

Note: For the year ended 31st December, 2019, the government subsidy represented the ex-gratia payment under the "Ex-gratia Payment Scheme for Phasing Out Pre-Euro IV Diesel Commercial Vehicles" upon retirement of motor vehicles.

For the year ended 31st December, 2018, the government subsidy represented subsidies to the Group by the PRC government as incentives primarily for the non-layoffs or the rate of layoffs in the previous year was lower than the city's registered unemployment rate in that year.

10. OTHER GAINS AND LOSSES

	2019 *HK$'000*	2018 *HK$'000*
Net foreign exchange gains	9,435	17,033
Net (loss)/gain on disposal of property, plant and equipment	(2,231)	770
(Decrease)/increase in fair values of investment properties	(5,690)	20,250
Net decrease in fair values of derivative financial instruments	(6,958)	—
	(5,444)	38,053

11. SEGMENT INFORMATION

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

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 4 to the consolidated financial statements. Segment profits or losses represent the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, interest income, property rental income, net foreign exchange gains, increase or decrease in fair values of investment properties, net decrease in fair values of derivative financial instruments, finance costs and share of profit of an associate. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

11. SEGMENT INFORMATION (continued)

Information about operating segment profit or loss:

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Total *HK$'000*
For the year ended 31st December, 2019					
Original design manufacturing division	**482,158**	**201,927**	**76,712**	**14,545**	**775,342**
Distribution division	**152,105**	**22,813**	**51,615**	**39,087**	**265,620**
Revenue from external customers	**634,263**	**224,740**	**128,327**	**53,632**	**1,040,962**
Segment (loss)/profit	**(18,679)**	**(17,807)**	**(5,058)**	**2,261**	**(39,283)**
Unallocated income and gains					**14,150**
Unallocated corporate expenses and losses					**(109,804)**
Interest income on bank deposits					**840**
Finance costs					**(886)**
Share of profit of an associate					**5,700**
Loss before tax					**(129,283)**

11. SEGMENT INFORMATION (continued)

Information about operating segment profit or loss: (continued)

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Total *HK$'000*
For the year ended 31st December, 2018					
Original design manufacturing division	495,429	331,001	95,276	10,210	931,916
Distribution division	146,022	23,166	53,813	41,096	264,097
Revenue from external customers	641,451	354,167	149,089	51,306	1,196,013
Segment profit/(loss)	18,277	(2,509)	1,489	4,140	21,397
Unallocated income and gains					42,355
Unallocated corporate expenses and losses					(99,003)
Interest income on bank deposits					5,431
Finance costs					(1,133)
Share of profit of an associate					5,922
Loss before tax					(25,031)

Other Segment information

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

	Europe *HK$'000*	**United States** *HK$'000*	**Asia** *HK$'000*	**Other regions** *HK$'000*	**Unallocated** *HK$'000* *(Note)*	**Total** *HK$'000*
For the year ended 31st December, 2019						
Depreciation of property, plant and equipment	**8,598**	**3,601**	**1,249**	**259**	**84,676**	**98,383**
Impairment losses recognised on debtors	**677**	**8,686**	**138**	**139**	**—**	**9,640**
Write back of inventories	**(5,082)**	**(2,815)**	**(1,834)**	**(434)**	**—**	**(10,165)**

11. SEGMENT INFORMATION (continued)

Other Segment information (continued)

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Unallocated HK$'000 (Note)	Total HK$'000
For the year ended 31st December, 2018						
Depreciation of property, plant and equipment	6,737	4,501	1,293	139	86,037	98,707
Impairment losses recognised on debtors	550	3,194	343	476	—	4,563
Allowance for inventories	3,514	2,610	341	—	—	6,465

Amounts regularly provided to the CODM but not included in the measure of segment profit and not allocated to any operating and reportable segment included net gain or loss on disposal of property, plant and equipment and depreciation of right-of-use assets (2018: release of prepaid land lease payments) which are set out in note 10 and 15 respectively.

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

Geographical information

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

	Revenue from external customers		Non-current assets	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Hong Kong	**—**	—	**207,807**	212,677
PRC	**—**	—	**422,485**	515,517
United States	**224,740**	354,167	**2,160**	2,160
Italy	**414,380**	432,282	**38,160**	32,306
Other countries	**401,842**	409,564	**18,677**	17,811
	1,040,962	1,196,013	**689,289**	780,471

11. SEGMENT INFORMATION (continued)

Information about major customers

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

	2019	2018
	HK$'000	*HK$'000*
Customer A[1]	**201,537**	146,742
Customer B[2]	**114,052**	162,335

[1] Revenue from Europe
[2] Revenue from the United States

12. IMPAIRMENT LOSSES

	2019	2018
	HK$'000	*HK$'000*
Impairment losses recognised on debtors	**9,640**	4,563

13. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on bank borrowings	**841**	1,133
Interest on lease liabilities	**45**	—
	886	1,133

14. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Current year:		
Hong Kong Profits Tax	**2,677**	2,771
PRC Enterprise Income Tax	**274**	825
United Kingdom Corporation Tax	**2,089**	1,909
France Corporation Tax	**609**	764
South Africa Corporation Tax	**250**	97
Dividend withholding tax	**2,090**	1,177
Deferred taxation *(note 39)*	**(5,565)**	2,004
	2,424	9,547
(Over)/underprovision in respect of prior year:		
Hong Kong Profits Tax	**—**	(31)
PRC Enterprise Income Tax	**(14)**	(54)
United Kingdom Corporation Tax	**—**	10
France Corporation Tax	**—**	49
South Africa Corporation Tax	**60**	34
	46	8
	2,470	9,555

Under the two-tiered profits tax regime, profits tax rate for the first HK$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5% for both years.

Tax charge on profits assessable elsewhere has been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

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

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

France Corporation Tax is calculated at the applicable rate of 28% for amounts of taxable profit up to EUR500,000 and a corporate tax rate of 33.33% for taxable profit above EUR500,000 in accordance with the relevant law and regulations in France for both years.

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

14. INCOME TAX EXPENSE (continued)

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2019 *HK$'000*	2018 *HK$'000*
Loss before tax	**(129,283)**	(25,031)
Tax at Hong Kong Profits Tax rate of 16.5%	**(21,332)**	(4,130)
Tax effect of share of profit of an associate	**(941)**	(977)
Tax effect of expenses that are not deductible	**2,468**	1,207
Tax effect of income that is not taxable	**(1,438)**	(4,688)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis *(Note)*	**5,814**	7,721
Underprovision in respect of prior year	**46**	8
Tax effect of tax losses not recognised	**8,775**	8,150
Tax effect of other deductible temporary differences not recognised	**10,262**	3
Utilisation of tax losses not previously recognised	**(5,520)**	(2,111)
Utilisation of deductible temporary differences not previously recognised	**(1,166)**	(2,865)
Dividend withholding tax	**1,975**	5,504
Effect of different tax rate of subsidiaries operating in other jurisdictions	**713**	815
Effect of two-tiered tax rate of Hong Kong	**(165)**	(165)
Others	**2,979**	1,083
Income tax expense	**2,470**	9,555

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

15. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2019 *HK$'000*	2018 *HK$'000*
Amortisation of intangible assets (included in distribution and selling expenses)	**2,110**	2,005
Impairment losses recognised on debtors	**9,640**	4,563
Auditors' remuneration:		
– Audit service	**1,300**	1,500
– Non-audit services	**512**	538
Cost of inventories recognised as an expense	**861,625**	937,947
Depreciation of the property, plant and equipment	**98,383**	98,707
Decrease/(increase) in fair values of investment properties	**5,690**	(20,250)
Net decrease in fair values of derivative financial instruments	**6,958**	—
(Write back of)/allowance for inventories (included in cost of sales)	**(10,165)**	6,465
Operating leases rentals in respect of rented premises	**1,797**	2,825
Direct operating expenses of investment properties that did not generate rental income	**1,158**	1,255
Direct operating expenses of investment properties that generate rental income	**752**	752
Release of prepaid land lease payments	**—**	835

Cost of inventories sold includes staff costs and depreciation of approximately HK$327,028,000 (2018: HK$366,179,000) which are included in the amounts disclosed separately above.

16. EMPLOYEE BENEFITS EXPENSE

	2019 *HK$'000*	2018 *HK$'000*
Salaries, bonuses and allowances	**433,978**	472,121
Retirement benefit scheme contributions	**36,688**	55,721
	470,666	527,842

The five highest paid individuals in the Group during the year included one (2018: one) executive director whose emoluments are set out in note 17. The emoluments of the remaining four (2018: four) highest paid individuals are set out below:

	2019 *HK$'000*	2018 *HK$'000*
Salaries and other benefits	**5,412**	5,394
Performance related incentive bonuses	**581**	505
Contributions to retirement benefit schemes	**413**	433
	6,406	6,332

16. EMPLOYEE BENEFITS EXPENSE (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**2**	2
	4	4

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

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2018: nil).

17. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director in respect of a person's services as a director of the Company undertaking is set out below:

	Fees	**Salaries and allowances**	**Retirement benefit scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Mr. Ng Hoi Ying, Michael	**—**	**1,560**	**72**	**1,632**
Mr. Ng Kim Ying	**—**	**450**	**21**	**471**
	—	**2,010**	**93**	**2,103**
Independent non-executive directors:				
Mr. Wong Chi Wai	**144**	**—**	**—**	**144**
Mr. Chung Hil Lan Eric	**144**	**—**	**—**	**144**
Mr. Lam Yu Lung	**144**	**—**	**—**	**144**
	432	**—**	**—**	**432**
Total for 2019	**432**	**2,010**	**93**	**2,535**

17. DIRECTORS' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Mr. Ng Hoi Ying, Michael	—	1,560	72	1,632
Mr. Ng Kim Ying	—	455	21	476
	—	2,015	93	2,108
Independent non-executive directors:				
Mr. Wong Chi Wai	144	—	—	144
Mr. Chung Hil Lan Eric	144	—	—	144
Mr. Lam Yu Lung	144	—	—	144
	432	—	—	432
Total for 2018	432	2,015	93	2,540

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

(b) Directors' material interests in transactions, arrangements or contracts

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

18. DIVIDENDS

	2019 ***HK$'000***	2018 *HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
No special dividend paid in respect of 2019 (2018: 5.0 HK cents per share in respect of 2018)	—	19,183

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31st December, 2019 has been proposed by the Directors (2018: nil).

18. DIVIDENDS (continued)

During the year ended 31st December, 2018, scrip dividend alternatives were offered in respect of the special dividend for the six months period ended 30th June, 2018. The scrip dividend alternatives were accepted by the minority of ordinary shareholders, as follows:

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

19. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2019 ***HK$'000***	2018 *HK$'000*
Loss for the purpose of basic loss per share		
– Loss for the year attributable to owners of the Company	**(136,292)**	(38,294)

	2019 ***Number of shares***	2018 *Number of shares*
Weighted average number of shares for the purpose of basic loss per share	**386,263,374**	384,093,916

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

No diluted loss per share has been presented as there was no potential ordinary shares in issue during 2019 and 2018.

20. INVESTMENT PROPERTIES

The Group leases out lettable units of the properties under operating leases with rentals payable monthly. The leases typically run for an initial period of 2 to 3 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	2019 ***HK$'000***	2018 *HK$'000*
At 1st January	**177,610**	154,190
Reclassification from property, plant and equipment	**—**	3,170
(Decrease)/increase in fair value recognised in profit or loss	**(5,690)**	20,250
At 31st December	**171,920**	177,610

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

At 31st December, 2019 and 31st December, 2018, independent valuations were undertaken by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professional valuers not connected to the Group which has appropriate professional qualifications and recent experience in the valuation of similar properties in the neighbourhood.

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

At 31st December, 2019, all investment properties pledged as security for the Group's bank borrowings amounted to HK$18,979,000 (2018: HK$23,046,000).

21. PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in land and buildings held for own use	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Buildings under construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note a)							
Cost								
At 1st January, 2018	48,641	695,524	731,810	774,584	48,828	11,455	2,021	2,312,863
Additions	—	1,872	3,576	18,354	1,997	2,526	2,337	30,662
Disposals	—	—	—	(25,356)	(3,492)	(1,923)	—	(30,771)
Reclassification to investment properties	(1,558)	—	—	—	—	—	—	(1,558)
Reclassification	—	1,493	960	—	—	—	(2,453)	—
Exchange realignment	—	(28,596)	(45,061)	(40,945)	(1,595)	(749)	(126)	(117,072)
At 31st December, 2018	47,083	670,293	691,285	726,637	45,738	11,309	1,779	2,194,124
Impact on initial application of HKFRS 16 *(note 3)*	33,346	—	—	—	—	—	—	33,346
At 1st January, 2019	80,429	670,293	691,285	726,637	45,738	11,309	1,779	2,227,470
Additions	—	441	—	12,221	655	3,163	—	16,480
Disposals	—	—	—	(2,541)	(342)	(1,188)	(1,758)	(5,829)
Exchange realignment	(1,639)	(17,332)	(23,239)	(36,912)	(1,480)	(381)	(21)	(81,004)
At 31st December, 2019	78,790	653,402	668,046	699,405	44,571	12,903	—	2,157,117
Accumulated depreciation								
At 1st January, 2018	11,489	389,868	496,422	743,957	40,744	10,056	—	1,692,536
Charge for the year	1,356	13,673	67,347	12,670	2,840	821	—	98,707
Eliminated on disposals	—	—	—	(25,323)	(3,475)	(1,850)	—	(30,648)
Eliminated on reclassification to investment properties	(304)	—	—	—	—	—	—	(304)
Exchange realignment	—	(16,070)	(31,648)	(39,305)	(1,188)	(654)	—	(88,865)
At 31st December, 2018 and 1st January, 2019	12,541	387,471	532,121	691,999	38,921	8,373	—	1,671,426
Charge for the year	3,242	13,435	64,120	13,707	2,607	1,272	—	98,383
Eliminated on disposals	—	—	—	(1,512)	(338)	(891)	—	(2,741)
Exchange realignment	(639)	(10,059)	(20,411)	(35,408)	(1,233)	(343)	—	(68,093)
At 31st December, 2019	15,144	390,847	575,830	668,786	39,957	8,411	—	1,698,975
Carrying amount								
At 31st December, 2019	63,646	262,555	92,216	30,619	4,614	4,492	—	458,142
At 31st December, 2018	34,542	282,822	159,164	34,638	6,817	2,936	1,779	522,698

During the year ended 31st December, 2018, the Group changed the usage of two properties from owner occupation to investment properties. Accordingly, the relevant portion of the properties with a net carrying value of HK$1,254,000 was transferred from property, plant and equipment to investment properties at their fair values on the date of transfer of HK$3,170,000 which were determined by the Directors with reference to the valuation carried out by Vigers at the dates of transfer. The difference between the fair values of these properties and their carrying values at the date of transfer amounting to HK$1,916,000 had been credited to property revaluation reserve.

21. PROPERTY, PLANT AND EQUIPMENT (continued)

The management of the Group has conducted a review on the impairment assessment on the CGU. The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are referred to past experience and current market expectation and/or demand or based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate whichever is applicable. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five (2018: five) years. The pre-tax rate used to discount the forecast cash flows from the Group is 11.93% (2018: 13.31%).

No impairment loss has been recognised on the CGU during year ended 31st December, 2019 and 2018.

The Group is in the process of obtaining the property ownership certificates in respect of certain buildings located in the PRC with carrying value of HK$173,235,000 (2018: HK$184,573,000).

Note:

(a) Right-of-use assets

	Land and buildings *HK$'000*	Leasehold lands in PRC *HK$'000*	Leased properties *HK$'000*	Total *HK$'000*
At 1st January, 2019	34,542	—	—	34,542
Impact on initial application of HKFRS 16 *(note 3)*	—	30,188	3,158	33,346
At 1st January, 2019	34,542	30,188	3,158	67,888
Depreciation	(1,345)	(792)	(1,105)	(3,242)
Exchange realignment	—	(998)	(2)	(1,000)
At 31st December, 2019	33,197	28,398	2,051	63,646

The land and buildings comprise a property situated in Hong Kong.

At 31st December, 2019, the carrying amount of land and buildings of HK$29,296,000 (2018: HK$30,441,000) pledged as securities for the Group's bank borrowings amounted to HK$6,325,000 (2018: HK$7,595,000).

Lease liabilities of HK$2,065,000 are recognised with related right-of-use assets of HK$2,051,000 as at 31st December, 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

21. PROPERTY, PLANT AND EQUIPMENT (continued)

Note: (continued)

(a) Right-of-use assets (continued)

	2019 HK$'000
Depreciation expenses on right-of-use assets	3,242
Interest expense on lease liabilities (included in finance cost)	45
Expenses relating to short-term lease (included in cost of sales and administrative expenses)	1,797

Details of total cash outflow for leases are set out in note 44(a).

For both years, the Group leases various offices and warehouses for its operations. Lease contracts are entered into for fixed term of 3 months to 5 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

	Lease liabilities recognised as at 31st December, 2019 (discounted) HK$'000	Potential future lease payments under extension options not included in lease liabilities (undiscounted) HK$'000
Offices - outside Hong Kong	2,065	5,658

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31st December, 2019, there has been no such triggering event.

The Group is in the process of obtaining the land use right certificates in respect of certain leasehold lands located in the PRC with carrying value of HK$19,341,000 (2018: HK$20,279,000).

22. PREPAID LAND LEASE PAYMENTS

The Group's interests in prepaid land lease payments represent prepaid operating lease payments and their net book value are analysed as follows:

	HK$'000
At 1st January, 2018	32,847
Amortisation	(835)
Exchange realignment	(1,824)
At 31st December, 2018 and 1st January, 2019	30,188
Reclassification due to adoption of HKFRS 16 *(note 3)*	(30,188)
Restated balance at 1st January, 2019	—

	2018 *HK$'000*
Current portion	802
Non-current portion	29,386
	30,188

23. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2019 and 31st December, 2018 are as follows:

Name	Place of incorporation/ registration and operation	Paid up capital	Percentage of ownership interest				Principal activities
			2019		2018		
			Direct	Indirect	Direct	Indirect	
Allied Power Inc.	British Virgin Islands	Canadian Dollars 50,000	100%	—	100%	—	Investment holding
Apex City Industrial Limited	Hong Kong	HK$100	—	100%	—	100%	Trading in prescription frames and sunglasses
Argent Optical Manufactory Limited	Hong Kong/ PRC	HK$100,000	—	100%	—	100%	Manufacture of prescription frames and sunglasses
Arts Optical Company Limited	Hong Kong	HK$1,000,000	—	100%	—	100%	Trading in prescription frames and sunglasses
Arts Studio Limited	Hong Kong	HK$100	—	100%	—	100%	Trading in prescription frames and sunglasses
Sin Dak Industrial Limited	Hong Kong	HK$40,000	—	100%	—	100%	Property holding
Stepper Eyewear Limited ("Stepper HK")	Hong Kong	HK$100	—	80%	—	80%	Trading in prescription frames and sunglasses
Stepper France	France	EUR50,000	—	66.4%	—	66.4%	Trading in prescription frames and sunglasses
Stepper South Africa (Proprietary) Limited	South Africa	South African Rand 500,000	—	80%	—	80%	Trading in prescription frames and sunglasses
Stepper (UK) Limited ("Stepper UK")	United Kingdom	GPB5,000	—	72%	—	72%	Trading in prescription frames and sunglasses
雅駿光學科技（深圳）有限公司 (known as "Argent Optical Technology (Shenzhen) Company Limited")	PRC	HK$132,821,656	—	100% *(Note)*	—	100% *(Note)*	Manufacture of prescription frames and sunglasses
雅視光學發展（深圳）有限公司 Arts Optical Development (Shenzhen) Company Limited	PRC	HK$70,000,000	—	100% *(Note)*	—	100% *(Note)*	Manufacture of prescription frames and sunglasses
宏懋金屬製品（深圳）有限公司 (known as "Hongmao Metal Products (Shenzhen) Company Limited")	PRC	HK$61,000,000	—	100% *(Note)*	—	100% *(Note)*	Property holding
滙駿光學城（河源）有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK$150,000,000	—	100% *(Note)*	—	100% *(Note)*	Manufacture of prescription frames and sunglasses
上海司溥光學有限公司 Shanghai Stepper Eyewear Company Limited	PRC	RMB6,600,000	—	48%	—	48%	Trading in prescription frames and sunglasses

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

23. PRINCIPAL SUBSIDIARIES (continued)

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

None of the subsidiaries had any debt securities at 31st December, 2019 or at any time during the year.

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

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

Remarks:

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

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

Name	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019** *HK$'000*	2018 *HK$'000*	**2019** *HK$'000*	2018 *HK$'000*
Stepper HK	Hong Kong	**20%**	20%	**4,539**	3,708	**32,854**	28,785
Individually immaterial subsidiaries with non-controlling interests				**—**	—	**(918)**	(918)
				4,539	3,708	**31,936**	27,867

23. PRINCIPAL SUBSIDIARIES (continued)

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

Stepper HK and its subsidiaries

	2019 *HK$'000*	2018 *HK$'000*
At 31st December:		
Non-current assets	21,823	20,647
Current assets	149,957	126,137
Non-current liabilities	(1,431)	(66)
Current liabilities	(38,840)	(37,609)
Net assets	131,509	109,109
Equity attributable to owners of the Company	103,492	85,245
Non-controlling interests of Stepper HK	24,234	19,672
Non-controlling interests of Stepper HK's subsidiaries	3,783	4,192
For the year ended 31st December:		
Revenue	247,685	240,199
Expenses	225,619	222,279
Profit for the year	22,066	17,920
Profit attributable to owners of the Company	17,512	14,730
Profit attributable to the non-controlling interests of Stepper HK	4,378	3,682
Profit/(loss) attributable to the non-controlling interests of Stepper HK's subsidiaries	176	(492)
Profit for the year	22,066	17,920

23. PRINCIPAL SUBSIDIARIES (continued)

Stepper HK and its subsidiaries (continued)

	2019 HK$'000	2018 HK$'000
For the year ended 31st December:		
Other comprehensive income/(expense) attributable to owners of the Company	734	(2,208)
Other comprehensive income/(expense) attributable to the non-controlling interests of Stepper HK	184	(552)
Other comprehensive income/(expense) attributable to the non-controlling interests of Stepper HK's subsidiaries	48	(357)
Other comprehensive income/(expense) for the year	966	(3,117)
Total comprehensive income attributable to owners of the Company	18,246	12,522
Total comprehensive income attributable to the non-controlling interests of Stepper HK	4,562	3,130
Total comprehensive income/(expense) attributable to the non-controlling interests of Stepper HK's subsidiaries	224	(849)
Total comprehensive income for the year	23,032	14,803
Net cash generated from operating activities	28,886	16,177
Net cash (used in)/generated from investing activities	(413)	1,272
Net cash used in financing activities	(22,769)	(12,875)
Net increase in cash and cash equivalents	5,704	4,574

24. INTANGIBLE ASSETS

	Trademark *HK$'000*	Customer relationships *HK$'000*	Total *HK$'000*
Cost			
At 1st January, 2018	4,680	13,795	18,475
Exchange realignment	—	(769)	(769)
At 31st December, 2018 and 1st January, 2019	4,680	13,026	17,706
Exchange realignment	—	122	122
At 31st December, 2019	4,680	13,148	17,828
Amortisation and impairment			
At 1st January, 2018	2,520	4,752	7,272
Provided for the year	—	1,362	1,362
Exchange realignment	—	(324)	(324)
At 31st December, 2018 and 1st January, 2019	2,520	5,790	8,310
Provided for the year	—	1,300	1,300
Exchange realignment	—	69	69
At 31st December, 2019	2,520	7,159	9,679
Carrying amount			
At 31st December, 2019	2,160	5,989	8,149
At 31st December, 2018	2,160	7,236	9,396

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

The recoverable amount of the trademark has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculation uses cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, and at a discount rate of 11.93% (2018: 13%). The cash flows beyond the 5-year period are extrapolated using a 0% (2018: 0%) growth rate. Cash flow projections during the budget period for the trademark are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

Based on the discounted cash flow projections, the recoverable amount of the trademark is estimated to be higher than its carrying amount. Accordingly, the management of the Group determined that no impairment loss on trademark for both years.

25. GOODWILL

	2019 HK$'000	2018 HK$'000
Cost		
At 1st January	7,760	8,260
Exchange realignment	227	(500)
At 31st December	7,987	7,760
Accumulated impairment losses		
At 1st January and 31st December	—	—
Carrying amount		
At 31st December	7,987	7,760

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

The recoverable amount of the CGU has been determined on a value in use calculation. The recoverable amount is based on certain key assumptions. The value in use calculations uses cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, and at a discount rate of 11.03% (2018: 13%). The cash flows beyond the 5-year period are extrapolated using a 0% (2018: 0%) growth rate. Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

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

26. INVESTMENT IN AN ASSOCIATE

	2019 *HK$'000*	2018 *HK$'000*
Cost of the Group's interest in an associate *(Notes)*		
− Unlisted	**36,647**	26,461
− Amortisation of intangible assets	**(3,545)**	(2,735)
− Exchange realignment	**(1,485)**	(1,290)
	31,617	22,436
Share of post-acquisition profit or loss and other comprehensive income	**6,543**	9,870
Group's share of carrying amount of interests	**38,160**	32,306

Notes:

(a) Breakdown of cost of investment

	2019 *HK$'000*	2018 *HK$'000*
Share of 57.5%/50% interest in net assets	**21,333**	17,116
Intangible assets − customer relationships	**9,922**	7,214
Goodwill	**5,392**	2,131
At 31st December	**36,647**	26,461

(b) Movement of intangible assets − customer relationships

	2019 *HK$'000*	2018 *HK$'000*
At 1st January	**3,479**	4,303
Additions	**2,708**	—
Amortisation recognised in profit or loss	**(810)**	(643)
Exchange realignment	**(115)**	(181)
At 31st December	**5,262**	3,479

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

26. INVESTMENT IN AN ASSOCIATE (continued)

Notes: (continued)

(c) Movement of goodwill

	2019 HK$'000	2018 HK$'000
At 1st January	**1,841**	1,931
Additions	**3,261**	—
Exchange realignment	**(80)**	(90)
At 31st December	**5,022**	1,841

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

The Group's trade debtor balance and trade creditor balance due from/to the associate are disclosed in notes 30 and 33 respectively.

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

Name	Place of incorporation	Issued and paid up capital	Percentage of ownership interest/ voting power 2019	2018	Principal activities
Trenti Industria Occhiali S.p.A. ("Trenti")	Italy	EUR305,560	**57.5%**	50%	Manufacture of and trading in prescription frames and sunglasses

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

Although, the Group holds 57.5% of the issued share capital of Trenti. However, under the agreement, the other shareholders control the composition of the board of directors of Trenti and have control over Trenti. The Directors consider that the Group does have significant influence over Trenti and it is therefore classified as an associate of the Group.

On 27th March, 2019, the Group entered into a share purchase agreement with an existing shareholder of the Group's associate ("Vendor"), pursuant to which Vendor agreed to sell and the Group agreed to purchase 7.5% of the issued share capital of the associate for a consideration of EUR787,500 (equivalent to approximately HK$6,941,000) and reinvestment of dividend (see below). The transaction was completed on 10th April, 2019. Up to 31st December, 2019, the Group has paid EUR630,000 (equivalent to approximately HK$5,553,000) to the Vendor and the remaining consideration of EUR157,500 (equivalent to approximately HK$1,388,000) will be settled on 31st December, 2020, 31st December, 2022 and 31st January, 2025 pursuant to the share purchase agreement.

26. INVESTMENT IN AN ASSOCIATE (continued)

For the year ended 31st December, 2019, the Group was entitled to receive the dividend declared by the associate of EUR902,500 (equivalent to approximately HK$7,834,000). The Group has received dividend in cash of EUR297,850 (equivalent to approximately HK$2,552,000) (net of withholding tax of EUR104,650 (equivalent to approximately HK$897,000)) and EUR370,000 (equivalent to approximately HK$3,245,000) (net of withholding tax of EUR130,000 (equivalent to approximately HK$1,140,000)) was reinvested into the associate.

The following tables show information on the associate that are material to the Group. This associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRSs financial statements of the associate.

	2019	2018
Percentage of ownership interest/voting rights held by the Group	57.5%/57.5%	50%/50%

	2019 *HK$'000*	2018 *HK$'000*
At 31st December:		
Non-current assets	18,134	19,356
Current assets	131,998	170,784
Non-current liabilities	—	—
Current liabilities	(105,163)	(139,698)
Net assets	44,969	50,442
Group's share of net assets	25,857	25,221
Goodwill	5,022	1,841
Intangible assets	5,262	3,479
Other adjustments	2,019	1,765
Group's share of carrying amount of interests	38,160	32,306
For the year ended 31st December:		
Revenue	220,534	221,901
Profit for the year	10,799	11,844
Other comprehensive expense	(1,504)	(2,962)
Total comprehensive income	9,295	8,882
Dividend received from the associate	3,449	4,525
Dividend reinvested to the associate	4,385	—

27. INVESTMENT IN A JOINT VENTURE

	2019 *HK$'000*	2018 *HK$'000*
Cost of unlisted investment in joint venture *(Note)*	**1,041**	1,041
Share of post-acquisition profit or loss and other comprehensive income	**196**	196
	1,237	1,237
Loan to a joint venture	**3,714**	3,714
	4,951	4,951
Impairment loss recognised in profit or loss	**(4,951)**	(4,951)
	—	—

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

The loan to the joint venture of HK$3,714,000 (2018: HK$3,714,000) included in the Group's non-current assets is unsecured, carries interest at 0.01% per annum and not repayable within one year from the end of the reporting period.

The Group's trade debtor balance due from the joint venture is disclosed in note 30.

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

Name	Place of incorporation	Paid up capital	Percentage of ownership interest/ voting power 2019	Percentage of ownership interest/ voting power 2018	Principal activities
廣州佳視美光學眼鏡有限公司 (known as "Guangzhou Jiashimei Optical Company Limited") ("Guangzhou Jiashimei")	PRC	RMB1,000,000	**27%**	27%	Trading in prescription frames and sunglasses

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

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

27. INVESTMENT IN A JOINT VENTURE (continued)

The following tables show information on the joint venture that is material to the Group. This joint venture is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRSs financial statements of the joint venture.

	2019	2018
Percentage of ownership interest/voting rights held by the Group	**27%/27%**	27%/27%

	2019 *HK$'000*	2018 *HK$'000*
At 31st December:		
Non-current assets	**32**	32
Current assets	**18,474**	18,474
Non-current liabilities	**(13,810)**	(13,810)
Current liabilities	**(2,572)**	(2,572)
Net assets	**2,124**	2,124
Group's share of net assets	**573**	573
Goodwill	**708**	708
	1,281	1,281
Loan	**3,714**	3,714
Other adjustments	**(44)**	(44)
	4,951	4,951
Impairment losses recognised in profit or loss	**(4,951)**	(4,951)
Group's share of carrying amount of interests	**—**	—
For the year ended 31st December:		
Revenue	**—**	—
Profit for the year	**—**	—
Other comprehensive income	**—**	—
Total comprehensive income	**—**	—
Dividend received from the joint venture	**—**	—

28. LOAN RECEIVABLE

	2019 *HK$'000*	2018 *HK$'000*
Carrying amount analysed for reporting purpose:		
Non-current assets (receivable after 12 months from the end of the reporting period)	—	—

Movement in the carrying amount of loan receivable:

	2019 *HK$'000*	2018 *HK$'000*
At 1st January	—	—
Impairment loss recognised in profit or loss	—	—
Exchange realignment	—	—
At 31st December	—	—

The loan receivable is granted to an independent corporate customer and is denominated in US$. The amount carries fixed interest rate at 5% per annum and is repayable through 24 quarterly instalments of US$72,500 (equivalent to approximately HK$565,000) commencing in October 2016 with a balance payment of US$17,500 (equivalent to approximately HK$136,000) in October 2022. The amount is secured by all assets held by the corporate customer.

As at 31st December, 2019, included in the Group's loan receivable balance are debtors with aggregate carrying amount of US$1,757,500 (equivalent to approximately HK$13,689,000)(2018: US$1,757,500 (equivalent to approximately HK$13,765,000)) which are past due more than 360 days as at the reporting date. The Directors consider credit risks have increased significantly and those past due more than 360 days are considered as credit-impaired.

Included in the carrying amount of loan receivable as at 31st December, 2019 is accumulated impairment losses of US$1,757,500 (equivalent to approximately HK$13,689,000) (2018: US$1,757,500 (equivalent to approximately HK$13,765,000)). Details of impairment assessment for the year ended 31st December, 2019 are set out in note 6(b).

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

29. INVENTORIES

	2019 *HK$'000*	2018 *HK$'000*
Raw materials	28,762	30,809
Work in progress	73,775	106,024
Finished goods	38,826	45,730
	141,363	182,563

Because of the change in the market conditions of the Group's products during the year, there was a significant increase in the net realisable value of inventories. As a result, allowance made in prior years against the inventories of HK$10,165,000 (2018: nil) was reversed.

30. DEBTORS, DEPOSITS AND PREPAYMENTS

	2019 *HK$'000*	2018 *HK$'000*
Trade debtors from contracts with customers	305,536	394,450
Less: Allowance for credit losses	(61,749)	(55,394)
	243,787	339,056
Bills receivables	1,126	505
Other debtors, deposits and prepayments	28,237	15,798
Total debtors, deposits and prepayments	273,150	355,359

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

	2019 *HK$'000*	2018 *HK$'000*
HK$	20,885	891
RMB	852	11,166
EUR	5,785	1,182
US$	37,265	40,574
JPY	1,041	31

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

	2019 *HK$'000*	2018 *HK$'000*
0 – 90 days	182,242	234,801
91 – 180 days	51,875	101,281
More than 180 days	9,670	2,974
	243,787	339,056

30. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

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

	2019 *HK$'000*	2018 *HK$'000*
0 – 90 days	1,126	495
91 – 180 days	—	10
	1,126	505

As at 31st December, 2019, included in the Group's trade debtors balance are debtors with aggregate carrying amount of HK$49,593,000 (2018: HK$90,981,000) which are past due as at the reporting date. Out of the past due balances, HK$9,646,000 (2018: HK$2,811,000) has been past due 90 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

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

Details of impairment assessment of trade and other debtors for the year ended 31st December, 2019 are set out in note 6(b).

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

Included in the Group's trade debtors is an amount due from the Group's associate of HK$26,907,000 (2018: HK$31,172,000) net of allowance for credit losses of HK$299,000 (2018: HK$200,000), an amount due from the Group's joint venture of HK$94,000 (2018: HK$182,000) net of allowance for credit losses HK$5,000 (2018: HK$34,000) and an amount due from the non-controlling shareholder of a subsidiary of the Group of HK$460,000 (2018: HK$915,000), which are repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. The amounts outstanding are unsecured with carrying amount of HK$3,982,000 (2018: HK$3,643,000) which are past due balances, HK$651,000 (2018: HK$405,000) has been past due 90 days or more and is not considered as in default. An impairment loss of HK$304,000 (2018: HK$234,000) has been recognised in respect of the amounts outstanding from the associate and joint venture.

31. OTHER RECEIVABLES

	2019 **HK$'000**	2018 HK$'000
At 1st January	**881**	1,794
Imputed interest income recognised in profit or loss	**71**	137
Repayments	**(947)**	(953)
Exchange realignment	**(5)**	(97)
At 31st December	**—**	881

On 1st January, 2015, Stepper HK, a non-wholly-owned subsidiary of the Company, entered into four sale and purchase agreements with four members of the management team ("Stepper UK Team") of Stepper UK, a non-wholly-owned subsidiary of the Company, pursuant to which Stepper HK would sell and the Stepper UK Team would purchase a total of 25% of the issued share capital of Stepper UK for an aggregate consideration of GBP718,250 (equivalent to approximately HK$8,669,000) (the "Stepper UK Price"). The Stepper UK Price was determined by the parties at arm's length negotiations with reference to the price paid by the Group for the acquisition of Stepper UK in July 2014 and the post-acquisition profits earned by Stepper UK. The purpose of the sale of the 25% interest in Stepper UK was to motivate the Stepper UK Team towards higher level of performance of Stepper UK.

On 1st January, 2015, Stepper HK also entered into four sale and purchase agreements with four members of the management team ("Stepper France Team") of Stepper France, a non-wholly-owned subsidiary of the Company, pursuant to which (i) Stepper HK would sell and the Stepper France Team would purchase a total of 20% of the issued share capital of Stepper France for an aggregate consideration of EUR10,000 (equivalent to approximately HK$94,000) (the "Stepper France Share Price") and (ii) Stepper HK would assign its interest in its loan to Stepper France with a face value of EUR240,000 (equivalent to approximately HK$2,263,000) to the Stepper France Team for an aggregate consideration of EUR240,000 (equivalent to approximately HK$2,263,000) (the "Stepper France Loan Price"). The Stepper France Share Price and the Stepper France Loan Price were determined by the parties at arm's length negotiations with reference to the nominal value of the share capital of Stepper France transferred and face value of the shareholder's loan assigned respectively. The purpose of the sale of the 20% interest in Stepper France and assignment of shareholder's loan was to motivate the Stepper France Team towards higher level of performance of Stepper France.

On 31st July, 2016, Stepper HK entered into a sale and purchase agreement with a member of Stepper UK Team, Stepper HK would buy back the 15% of the issued share capital of Stepper UK which was sold to this member on 1st January, 2015. The reason of the buy back was the resignation of this member from the Stepper UK Team. On 5th August, 2016, this member had repaid in full the outstanding consideration of GBP344,760 (equivalent to approximately HK$3,527,000) pursuant to the sale and purchase agreement dated 1st January, 2015.

31. OTHER RECEIVABLES (continued)

On 31st July, 2016, Stepper HK also entered into a sale and purchase agreement with a member of Stepper France Team, (i) Stepper HK would buy back the 3% of the issued share capital of Stepper France which was sold to this member on 1st January, 2015 and (ii) this member would assign the interest in loan to Stepper France with a face value of EUR36,000 to Stepper HK which was assigned to this member on 1st January, 2015. The reason of the buy back and assignment was the resignation of this member from the Stepper France Team. On 5th August, 2016, this member had repaid in full the outstanding consideration of EUR30,000 (equivalent to approximately HK$258,000) pursuant to the sale and purchase agreement dated 1st January, 2015.

The other receivables were the consideration receivables from the Stepper UK Team and the Stepper France Team. The considerations were repayable by instalments and were fully repaid in December 2019.

The interest-free other receivables were carried at amortised cost, which represented the difference between the carrying amount and the present value of the estimated future cash flows discounted at an effective interest rate of 3.70% and 4.46% for Stepper UK Price and Stepper France Loan Price respectively.

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

	2019 ***HK$'000***	2018 *HK$'000*
EUR	**—**	362
GBP	**—**	519

32. BANK BALANCES AND CASH

Bank balances carry market interest rates which range from 0.001% to 0.30% (2018: 0.001% to 1.60%) in 2019 per annum.

The carrying amounts of the Group's bank balances and cash are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2019 ***HK$'000***	2018 *HK$'000*
HK$	**18,355**	18,312
RMB	**156**	236
EUR	**2,955**	1,640
US$	**19,718**	13,948
JPY	**632**	132
GBP	**6,153**	5,769

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

33. CREDITORS AND ACCRUED CHARGES

	2019 HK$'000	2018 HK$'000
Trade creditors	90,633	113,023
Other creditors and accrued charges	257,464	286,092
	348,097	399,115

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

	2019 HK$'000	2018 HK$'000
HK$	24,430	64,745
RMB	5,462	19,060
EUR	5,071	3,850
US$	653	924
JPY	776	765

The ageing analysis of trade creditors, based on the invoice date, is as follows:

	2019 HK$'000	2018 HK$'000
0 – 60 days	81,618	98,051
61 – 120 days	6,676	12,771
More than 120 days	2,339	2,201
	90,633	113,023

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

Trade creditor due to the associate

Included in the Group's trade creditors is an amount due to the Group's associate of HK$453,000 (2018: HK$532,000), which is repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature. The amount outstanding is unsecured and not past due at the end of the reporting period.

34. CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Optical products	12,253	13,363

Movements in contract liabilities:

	2019 HK$'000	2018 HK$'000
At 1st January	13,363	8,294
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	(12,770)	(7,771)
Increase in contract liabilities as a result of billing in advance	11,660	12,840
At 31st December	12,253	13,363

The amount of billings in advance of performance received that is expected to be recognised as income after more than one year is HK$593,000 (2018: HK$523,000).

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

– Optical products

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

35. REFUND LIABILITIES

	2019 HK$'000	2018 HK$'000
Arising from right of return	3,287	4,865

36. LEASE LIABILITIES

	Minimum lease payments	Present value of minimum lease payments
	2019	**2019**
	HK$'000	***HK$'000***
Within one year	718	688
In the second to fifth years, inclusive	1,408	1,377
	2,126	2,065
Less: Future finance charges	(61)	N/A
Present value of lease obligations	2,065	2,065
Less: Amount due for settlement within 12 months (shown under current liabilities)		(688)
Amount due for settlement after 12 months		1,377

The carrying amounts of the Group's lease liabilities are denominated in the functional currencies of the relevant group entities.

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1st January, 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31st December, 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

37. BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Secured bank borrowings	**25,304**	30,641

The bank borrowings are repayable as follows *(Note)*:

	2019 HK$'000	2018 HK$'000
Within one year	**5,486**	5,325
More than one year, but not exceeding two years	**5,658**	5,491
More than two years, but not exceeding five years	**14,160**	17,522
More than five years	**—**	2,303
	25,304	30,641
Portion of bank borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	**(25,304)**	(30,641)
Amounts due after one year shown under non-current liabilities	**—**	—

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

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK$18,979,000 (2018: HK$23,046,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties with carrying amount of HK$171,920,000 (2018: HK$177,610,000).

A bank borrowing of HK$6,325,000 (2018: HK$7,595,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$29,296,000 (2018: HK$30,441,000) and carries interest at one month HIBOR plus 1.8%.

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

	2019	2018
Variable-rate borrowings	**3.11%**	3.09%

The carrying amounts of the Group's bank borrowings are denominated in the functional currencies of the relevant group entities.

38. DERIVATIVE FINANCIAL INSTRUMENTS

On 27th March, 2019, the Group entered into an option agreement with an independent third party ("Buyer"), pursuant to which the Buyer and the Group granted each other reciprocal call and put options in respect of 12.5% of the issued share capital of the Group's associate, the exercise price of the option ranges from EUR1,000,000 (equivalent to approximately HK$8,863,000) to EUR1,562,500 (equivalent to approximately HK$13,848,000). The Buyer is entitled to exercise the call option during the period from 1st October, 2020 to 31st March, 2021 or the period from 1st October, 2021 to 31st March, 2022. The Group is entitled to exercise the put option during the period from 1st April, 2022 to 30th September, 2022.

	2019 *HK$'000*
Carrying amount of put option (non-current asset):	
At 1st January	—
Fair value at initial recognition date	1,814
Decrease in fair value at the end of reporting period	(1,526)
At 31st December	288

The carrying amount of the Group's derivative financial asset are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2019 *HK$'000*
EUR	288

	2019 *HK$'000*
Carrying amount of call option (current liability):	
At 1st January	—
Fair value at initial recognition date	3,000
Increase in fair value at the end of reporting period	4,246
At 31st December	7,246

The carrying amount of the Group's derivative financial liability are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2019 *HK$'000*
EUR	7,246

The fair values of options at initial recognition date and the end of reporting period were revalued by Vigers. The valuations have been arrived at using binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Major inputs to the model include the valuations of the options which were determined using expected volatility of share price and dividend yield.

39. DEFERRED TAX

The following are the deferred tax assets and (liabilities) recognised by the Group.

	Undistributable profits of an associate HK$'000	Accelerated tax depreciation HK$'000	Other temporary difference HK$'000 (Note)	Total HK$'000
At 1st January, 2018	—	(8,090)	(1,499)	(9,589)
(Charge)/credit to profit or loss	(4,327)	3,528	(1,205)	(2,004)
Exchange realignment	—	(38)	—	(38)
At 31st December, 2018 and 1st January, 2019	(4,327)	(4,600)	(2,704)	(11,631)
Credit/(charge) to profit or loss	115	(117)	5,567	5,565
Exchange realignment	—	(2)	—	(2)
At 31st December, 2019	(4,212)	(4,719)	2,863	(6,068)

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

The following is the analysis of the deferred tax balances (after offset) for consolidated statement of financial position purpose:

	2019 ***HK$'000***	2018 *HK$'000*
Deferred tax assets	**3,297**	391
Deferred tax liabilities	**(9,365)**	(12,022)
	(6,068)	(11,631)

At the end of the reporting period, the Group has unused tax losses of HK$554,147,000 (2018: HK$554,978,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of total HK$38,510,000 (2018: HK$31,870,000) that will expire from 2020 to 2024 (2018: expire from 2019 to 2023). Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK$414,166,000 (2018: HK$359,039,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

40. SHARE CAPITAL

	Number of shares		Nominal value	
	2019	2018	**2019**	2018
			HK$'000	*HK$'000*
Ordinary shares of HK$0.1 each				
Authorised:				
At beginning and end of year	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of year	**386,263,374**	383,650,000	**38,626**	38,365
Issue of scrip dividend *(Note)*	**—**	2,613,374	**—**	261
At 31st December, 2018, 1st January, 2019 and 31st December, 2019	**386,263,374**	386,263,374	**38,626**	38,626

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

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

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Total debt comprises bank borrowings and lease liabilities. Adjusted capital comprises all components of equity (i.e. share capital, retained profits and other reserves) except for non-controlling interests. As the end of the reporting period, the Group has debt outstanding of HK$27,369,000 (2018: HK$30,641,000) and the debt-to-adjusted capital has not been disclosed as the Group has net cash in both years.

The only externally imposed capital requirement is that for the Company to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Company receives a report from the share registrar monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31st December, 2019, the approximate percentage of the total shares in public hands were 49% (2018: 50%).

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	2019 HK$'000	2018 HK$'000
Non-current assets		
Investment in a subsidiary	139,040	139,040
Amount due from a subsidiary	128,223	129,253
	267,263	268,293
Current assets		
Deposits and prepayments	155	284
Bank balances	682	116
	837	400
Current liabilities		
Accrued charges	1,397	1,323
Dividend payable	58	58
	1,455	1,381
Net current liabilities	(618)	(981)
NET ASSETS	266,645	267,312
Capital and reserves		
Share capital	38,626	38,626
Reserves	228,019	228,686
EQUITY	266,645	267,312

Approved by the Board of Directors on 27th March, 2020 and is signed on its behalf by:

Ng Hoi Ying, Michael
Director

Ng Kim Ying
Director

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (continued)

(b) Reserve movement of the Company

	Share premium *HK$'000*	Contributed surplus *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*
At 1st January, 2018	113,950	105,369	4,738	224,057
Issue of shares	4,756	—	—	4,756
Profit for the year	—	—	19,056	19,056
Dividend paid *(note 18)*	—	—	(19,183)	(19,183)
At 31st December, 2018 and 1st January, 2019	118,706	105,369	4,611	228,686
Loss for the year	—	—	(667)	(667)
At 31st December, 2019	118,706	105,369	3,944	228,019

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

42. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Special reserve

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

(ii) Other reserve

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

42. RESERVES (continued)

(b) Nature and purpose of reserves (continued)

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(e) to the consolidated financial statements.

43. RETIREMENT BENEFIT SCHEMES

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

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

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

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of HK$36,781,000 (2018: HK$55,814,000) represents contributions paid and payable to these schemes by the Group. At the end of the reporting period, there was no forfeited contribution available to reduce future contributions in both years.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities

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

	Bank borrowings *HK$'000*	Dividend payable *HK$'000*	Lease liabilities *HK$'000*	Total *HK$'000*
At 1st January, 2018	56,687	—	—	56,687
Financing cash flows	(27,179)	(14,737)	—	(41,916)
Interest expenses	1,133	—	—	1,133
Dividends declared	—	19,754	—	19,754
Scrip dividend issued	—	(5,017)	—	(5,017)
At 31st December, 2018 and 1st January, 2019	30,641	—	—	30,641
Impact on application of HKFRS 16 *(note 3)*	—	—	3,025	3,025
Restated balance at 1st January, 2019	30,641	—	3,025	33,666
Financing cash flows	(6,178)	(807)	(1,003)	(7,988)
Interest expenses	841	—	45	886
Dividends declared	—	807	—	807
Exchange realignment	—	—	(2)	(2)
At 31st December, 2019	25,304	—	2,065	27,369

(b) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019 ***HK$'000***	2018 *HK$'000*
Within operating cash flows	**1,797**	2,825
Within investing cash flows	**—**	—
Within financing cash flows	**1,003**	—
	2,800	2,825

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Total cash outflow for leases (continued)

These amounts relate to the following:

	2019 *HK$'000*	2018 *HK$'000*
Lease rental paid	**2,800**	2,825

45. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	2019 *HK$'000*	2018 *HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– set up cost of investment in subsidiaries	**177,252**	301,816
– prepaid land lease payments	**—**	1,810
– buildings under construction	**1,068**	—
– leasehold improvements	**—**	1,201
– plant and machinery	**2,183**	802
– furniture, fixture and office equipment	**187**	8
	180,690	305,637

46. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At 31st December, 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

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

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

46. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessee (continued)

The Group regularly entered into short-term leases for offices and warehouses. As at 31st December, 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 21.

The Group as lessor

Property rental income earned for the year ended 31st December, 2018 was HK$4,302,000. All of the Group's investment properties are held for rental purposes. They are expected to generate rental yields of 2.4% on an ongoing basis. The properties held at the reporting date have committed tenants for an average term of two years with fixed rentals.

At 31st December, 2018 the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2018 *HK$'000*
Within one year	3,163
In the second to fifth years inclusive	773
	3,936

Operating leases relate to investment property owned by the Group with lease terms of two to three years. All operating lease contracts contain market review clauses in the vent that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Minimum lease payments receivable on leases are as follows:

	2019 ***HK$'000***
Within one year	**3,151**
In the second year	**2,294**
In the third year	**797**
	6,242

The following table presents the amounts reported in profit or loss:

	2019 ***HK$'000***
Lease income on operating leases	**4,382**

47. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	2019 *HK$'000*	2018 *HK$'000*
Sales of prescription frames and sunglasses to:		
an associate	**53,573**	58,858
a joint venture	**624**	230
a non-controlling shareholder of a subsidiary	**4,979**	6,007
	59,176	65,095
Purchase of prescription frames, sunglasses and raw materials from an associate	**1,455**	1,919

The Directors are of the opinion that the above transactions with the associate, joint venture and non-controlling shareholder of a subsidiary were conducted in the usual course of business.

Other than the above, the details of loan to, trade debtors from and trade creditor to the associate, joint venture and non-controlling shareholder of a subsidiary are shown in notes 27, 30 and 33 respectively. No guarantee has been given to or received from the associate, joint venture and non-controlling shareholder of a subsidiary.

(b) Compensation of key management personnel of the Group:

	2019 *HK$'000*	2018 *HK$'000*
Short term benefits	**10,479**	10,437
Post-employment benefits	**569**	589
	11,048	11,026

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

48. EVENTS AFTER THE REPORTING PERIOD

The coronavirus outbreak since early 2020 has brought additional uncertainties in the global macroeconomic situation. The board of Directors will continue to pay attention to the development of coronavirus and timely assess the impact on the operation of the Group. As far as the Group's businesses are concerned, the outbreak has adversely impacted the sales, some debtors' repayment abilities and turnover of inventory. As the extent to which the coronavirus outbreak will continue is uncertain, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, cash flows and operating results at the date when the consolidated financial statements are authorised for issue.

Except for the above, there is no subsequent event after the reporting period which has material impact to the consolidated financial statements of the Group.

Financial Summary

RESULTS

	For the year ended 31st December				
	2015	2016	2017	2018	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
REVENUE	1,382,427	1,255,126	1,028,188	1,196,013	**1,040,962**
(LOSS) PROFIT BEFORE TAX	(36,001)	844,030	(657,539)	(25,031)	**(129,283)**
INCOME TAX EXPENSE	(7,296)	(3,612)	(11,408)	(9,555)	**(2,470)**
(LOSS) PROFIT FOR THE YEAR	(43,297)	840,418	(668,947)	(34,586)	**(131,753)**
(LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	(48,873)	835,754	(674,549)	(38,294)	**(136,292)**
NON-CONTROLLING INTERESTS	5,576	4,664	5,602	3,708	**4,539**
	(43,297)	840,418	(668,947)	(34,586)	**(131,753)**

ASSETS AND LIABILITIES

	At 31st December				
	2015	2016	2017	2018	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
TOTAL ASSETS	2,081,310	2,493,737	1,659,411	1,542,744	**1,349,027**
TOTAL LIABILITIES	(1,002,170)	(657,145)	(492,592)	(469,462)	**(420,433)**
	1,079,140	1,836,592	1,166,819	1,073,282	**928,594**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	1,061,910	1,820,075	1,144,587	1,045,415	**896,658**
NON-CONTROLLING INTERESTS	17,230	16,517	22,232	27,867	**31,936**
	1,079,140	1,836,592	1,166,819	1,073,282	**928,594**

The Group applied several new and amendments to Hong Kong Financial Reporting Standards for the first time in the current year, including HKFRS 16 "Leases" retrospectively in accordance with transition provision with the cumulative effect of initially applying these standards recognised at the date of initial application, 1st January, 2019. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information for the years ended 2015 – 2018 have not been restated.

Properties Held for Investment

LIST OF INVESTMENT PROPERTIES

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